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**FAR EASTERN  
ECONOMIC REVIEW**

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# A Giant And His Hats

By the Editor

**"THE** Main task of a leader," Mao Tse-tung once remarked, "is to keep his feet on the ground." On the face of it, the announcement that Mao will be replaced as titular head of the Communist Chinese state by Marshal Chu Teh, his old brother-in-arms, may simply indicate his desire to come a little closer to the red soil of his vast empire.

Communist Party leaders everywhere have always been puzzled about how many and which hats to wear—the state, the government, the party, the army, the bureaucracy. The hat that Mao is to discard—unless it is forced back on his capacious head by the Party's activists—is the least important, if the most ornamental in his rack. The Party boss is the real ruler of China, as of Russia and every other Communist state, and there is no question of Comrade Mao losing his Party hat.

The change is not made out of turn: Mao will by early next year have completed another four-year term of office, and if it has been decided that another man should serve, there could be no more proper and normal method of effecting this than by Mao not offering himself for re-election.

Several reasons have been put forward for Mao's retiral—his need, at 65, to lighten the burden of work; the need to groom a successor; the urgency with which his theoretical writing programme is regarded, whether to satisfy his own personal yen for 'scholarship', to set the seal on Chinese ideological supremacy over the U.S.S.R., or to strengthen the ideational infra-structure for the communes.

## Wide of the Mark

Any and all of these factors may have contributed to the decision, but suggestions that direct pressure from Moscow, or pressure from within the Chinese Communist Party springing from criticism of the communes, of the "Double Steel Output This Year" campaign, of the growing unrest from the intellectuals or of the need to court Russian economic aid more diplomatically—suggestions that these directly precipitated the change are almost certainly wide of the mark.

72-year-old Chu Teh would be an obvious compromise candidate of irreproachable stature whose titular supremacy would allow the rival claims of Chou En-lai and Liu Shao-chi for the inheritance of Mao's mantle to continue to be thrashed out behind the scenes.

When that time comes, Liu Shao-chi, a man far more inflexible, tough, pro-Russian and unfamiliar with the outside world than either Mao or Chou, will probably be the winner.

## Recognition Question

It will be all the more important then that China is properly exposed to the currents of world diplomacy through participating in the U.N. and being obliged to defend her actions before the bar of independent "neutralist" opinion. At the moment Peking is badly informed on other countries—as her mistakes over Malaya and Japan have recently shown—either because she has no direct official sources of intelligence or because her diplomats, where they do exist, are too timid to go out and sound opinion.

It is important for world peace that the major powers can realistically assess each other's likely reactions to their own plans.

If Peking continues to remain out of touch with world opinion, the dangers of unintended conflagration will increase.

To say this is not to betray those Asian countries which have suffered from Communist attack, whether military or economic. Mr. Nehru last week put the recognition question in its right perspective when he refused to recognise the Algerian Nationalist "government"—in-exile because, simply, it did not govern.

Countries like Thailand, South Korea, the Philippines, are better served by increasing trade and economic aid in order to throw up material progress and underline internal demands for good government than by co-operating with an unnecessary and untenable view of international protocol.

Senator Humphrey is the latest U.S. leader to call for reconsideration of this matter, and it is significant that 16 of the 45 new Congressmen in Washington support recognition of Peking.



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## REPORTS OF THE WEEK

*Notes and comment on the week's events in East & S.E. Asia, from our correspondents abroad and our staff in Hongkong.*

### Mao Tse-tung Demoted?

By Richard Ying

**M**R. MAO TSE-TUNG has resigned as Chairman of the Chinese People's Republic. The announcement was made by the Chinese Foreign Minister, Marshal Chen Yi, to the diplomatic corps in Peking on December 16, 1958: "The Central Committee of the Communist Party, meeting in full session, decided on December 10 to approve the suggestion of Mr. Mao Tse-tung not to ask the National People's Congress for renewal of his mandate as Chairman of the Republic."

The text of the resolution of the Party Committee said in part: "The decision was taken by Mr. Mao in the interest of the Party and the Chinese people... Mr. Mao will remain head of the Party and of the people. If the situation demanded that Mr. Mao should again become Chairman of the Republic, he could be re-elected to that office in accordance with the decision of the Party..."

Earlier reports from Taipei alleged that Marshal Chu Teh would replace Mr. Mao as the head of Communist China "because of popular discontent over the new commune labour system and China's failure to capture the Quemoy islands."

Western correspondents reporting from Peking said that only a few foreign diplomats and observers in China interpreted the unconfirmed development as a form of demotion, which they attributed to snags encountered in setting up people's communes throughout the country and to the outcome of the offshore islands policy. Some thought that it was unlikely that Mr. Mao could give up completely all the duties of Chairman, and the majority agreed that he would remain in rank and prestige the most powerful figure in China—even if he should give up his post as the Chairman of the Republic.

The U.S. State Department rejects the theory that Mao is being forced to relinquish his post because of divisions in China's top command. "Mao wants to free himself from the ceremonial aspect of his job in order to work behind the scenes and force on to the country the system of resettling millions of Chin-

ese in vast, regimented communes" according to a Washington report. This, like the similar move of U Nu in Burma a year or two year, could be short-lived.

#### Mao's Political Prestige

It is wishful thinking to believe that Mao Tse-tung, now at the height of his political prestige, might be ousted from his position by his own lieutenants.

The fact that the introduction of communes in China is causing unrest throughout the country does not mean that Peking is no longer able to suppress any revolt. Furthermore, if the conditions in China are so bad that people's demand for personal freedom could no longer be ignored, the demotion of Mao would only bring to top Chinese Communists the uncertainty and turmoil which their counterparts in Russia had to face immediately after the de-Stalinisation campaign.

If the Chinese Communist Party was able to switch the 'let all flowers bloom' campaign overnight to a 'rectification' drive, it could easily modify its drastic measures or slow down the progress of the commune movement to suit the purpose. To remove Chairman Mao in order to pacify opposition would be just like using a butcher's knife to slit the throat of a chicken.

As to the offshore islands in the Taiwan Strait, Peking has already grace-

fully switched back to a 'peaceful liberation' policy under the excuse of turning 'foes into friends.'

#### China Ahead of Russia

By introducing communes—the highest stage of agricultural collectivisation—in China before this stage has been reached in Russia, Mao has scored another victory over Khrushchev in their struggle for leadership in the Communist World. Although the Russians are doing all they can to play down the progress of the commune movement in China, East European countries such as Albania are taking a serious view of the development in China.

The central committee of the Albanian Communist Party has already adopted a decree that all state and party functionaries are to spend a month every year in manual labour. Albanian communists are also planning to make good use of the experience of the Chinese Communists for creating model farms in Albania.

Bulgaria's agricultural collectivisation will follow the Chinese example. Authorities in Tirana and Sofia are also following Peking's line in their campaign against Yugoslavia and revisionism.

These developments confirm the belief that with the rise of Mao's political prestige in International Communism it is very unlikely that he could be unseated by his own followers. Furthermore, he still controls the Party and his position in China remains unchallenged.

#### Marxism-Leninism-Maoism

Most likely, Mao's voluntary resignation has been prompted by a genuine desire to spend more time in theoretical works thus consolidating his position as the No. 1 living communist theoretician. He wants to etch his name next to Marx and Lenin in the evolution of Communism from Marxism to Leninism and now to Maoism.

### Sarit's Economic Plans for Thailand

From Theh Chongkhadikij  
Bangkok

**T**HE Revolutionary Party which came into power on October 20, 1958, is striving for economic as well as political stability in Thailand. To achieve this objective, its leader, Field Marshal Sarit Thanarat, believes it necessary to have economic planning.

An Economic Advisory Committee, comprising respected persons with knowledge and experience in commercial, industrial and financial fields as well as

official economists and former politicians who had served in agricultural and other economic positions in previous governments, has been appointed by Marshal Sarit. It is tackling the problem on a three-stage basis.

First, it is immediately bringing down the price of essential goods. Prices of rice, sugar, charcoal and other materials of daily use, including cigarettes, have declined. This has resulted from a feel-





ing of confidence that conditions will be stable; the willingness of merchants and trade associations to cooperate; some unexpressed but unwarranted fear that there might be consequences if there is no co-operation; sales at lower-than-market prices by government organizations; holding of so-called morning markets where producers directly contact consumers in public gathering-places.

The rate for electric current consumption has been lowered; ten buckets of water are provided to each family daily free of charge; school maintenance contributions have been lowered; bus fares for school children have been slashed.

It is the first time since the end of the war that decisive action has been taken to bring down the cost of living. It has been contended that the question of the cost of living should be solved at its "roots." The importance of this is realized by members of the committee who are also working on short-term and long-range projects—the second and fourth stages respectively of the programme to achieve economic stability for the nation.

However, it has been found necessary to build the confidence of the Thai people in the ability of the Revolutionary Party to achieve results because it is only public trust which will induce the necessary co-operation for the success of the short-term and long-range economic plans.

The short-term economic plans call for invitation of foreign investments as early as possible in essential industries. The economic advisors are working on legal guarantees and inducements to attract investors. At the same time they want to be certain that it is not only the investors who will benefit but that the investments will also actually lead to economic advancements of the country.

As it is, sixteen foreign companies in Europe and America have applied for permission to establish pharmaceutical, tyre, car-assembly and other factories. The offers are now being studied with reference to their terms and conditions.

Long-range planning on which real work has not yet started but thoughts on which have been expressed by committee members in "brainstorming" sessions, will be based on Five-Year Plans of India because of almost, though not altogether similar conditions. The Indian Plans will not be adopted wholesale but will be adapted in the light of local conditions and mistakes made by India.

The long-range plans will not concentrate on industry, though industry is considered important to economic progress as it provides diversification of the economy, gives employment to the increasing urban population and helps the nation to save on foreign exchange spent on imported manufactures. They will also provide for agricultural expansion to meet food requirements of a population expected to double to 40 million by 1982.

The long-range plans will call for inculcation in today's children of an attitude suitable for future economic success of the Thai people—an attitude that will make them throw off complacency and contentment to strive for greater economic wealth. It is believed that only through the gaining of such attitude may the Thai people regain control of the economy of the country from the Chinese.

The plans will call for technical training of Thai youth so that they may adequately meet the problems of a technically advancing age.

In addition to the work of the economic advisors, Marshal Sarit himself has contributed towards greater stability through decisive, though drastic, actions against Communists and fellow-travellers and against arsonists.

Frequent strikes in the past, holding up production and making prospective investors wary of putting capital into Thailand, had been attributed to the Communists. Communist subversion and infiltration were blamed for political instability. A total of 112 persons have been arrested for Communist activities.

Marshal Sarit ordered the execution of three arsonists. This has put a stop to fires during a season of fires. In the past, before the end of the year, and before Chinese New Year, when accounts had to be settled, fires occurred daily, with businessmen benefiting from destruction of accounts and payment of insurance on highly overvalued property and others suffering from loss of homes and belongings. Arson was a factor of economic instability.

Marshal Sarit has now expressed determination to plug tax loopholes and crack down on corruption. Besides foreign investments, and its own actions, the Revolutionary Party hopes for American aid and loans to help it in its economic progress.

## Singapore Frees Dollar Imports

From G. G. Boland  
Singapore

SINGAPORE is liberalising its hard dollar imports following the appeal by the president of the Board of Trade, Sir David Eccles, at the Montreal Conference last September.

The Minister of Commerce and Industry, Mr. J. M. Jumabhoy, said in the Legislative Assembly on December 12 that the Government had agreed with the Federation to free the import of 23 items from the dollar areas from January 1.

He submitted a list which, he said, was identical with that announced by the Federation's Minister of Commerce and Industry, Mr. Tan Siew Sin, in the Federal Council, Kuala Lumpur, earlier in the week.

Previously, although a large number of imports from hard dollar areas, including tinned salmon and fruit juice concentrates were freely imported on special licences, an equally large number were not. These were imported on licences confined "to the merits of the case."

Those now freed from this category include mining machinery, pumps, electrically operated saws and steel. Previously newsprint could only be imported on condition that the receiver must not re-sell. This has been waived.

## Japan's Rice Dilemma

JAPAN'S rice production has been rising since the war. During 1952-6 it was about 10% higher than pre-war (by 1956 agricultural and fishery output as a whole was 22% above the 1933-5 level).

In the last three years the rice crop has averaged just over 14 million long tons (paddy) and the latest crop, though damaged by typhoons will be rather more. Acreage under harvest shows a steady, if small annual rise, and yield per acre—the highest in Asia—is nearly one-fifth more than pre-war. The country has reduced the bite that food imports take out of its annual import bill to 17% against 27% four years ago and 23% pre-war.

It is hardly surprising, therefore, that Japan's need for rice imports is declining—and commendably so—in spite of her population increase. Between 1955 and 1957 she reduced her volume of rice im-



JAPAN'S RICE IMPORTS  
(thousand long tons)

From	January-August		Whole year		
	1958	1957	1957	1956	1955
Burma .....	50	98	104	262	232
Thailand .....	41	114	114	128	335
U.S. ....	—	1	1	20	239
Taiwan .....	138	52	113	88	180
China .....	85	—	—	111	131
Spain .....	39	—	—	56	28
Italy .....	31	—	—	31	65
Others .....	61	12	10	50	16
<b>TOTAL</b> .....	<b>444</b>	<b>276</b>	<b>342</b>	<b>748</b>	<b>1,227</b>

Source: Commonwealth Economic Committee, London.

ports by no less than 72%. The accompanying table shows how the cut-back has been distributed among her normal vendors.

Last year the biggest falls were from Burma and—for different reasons—China. In the first eight months of 1958 the chief falls, compared with the same period of last year, were from Thailand and Burma, although Japan's total rice imports were higher.

This was because of fairly large shipments from China, Spain, Italy and Egypt. None of these countries supplied Japan last year, but between January and August of 1958 they sold her 212,000 tons or almost half of Japan's total intake. Furthermore shipments this year from Taiwan have shot up to make Taipei the leading supplier of them all.

Inevitably these changes in the trading pattern will bring disturbance, especially at a time when Burma and Thailand are facing exceptional foreign exchange difficulties and the growing threat of Chinese dumping. Bangkok complained recently that Japan would over-export to the tune of U.S.\$ 60 million by the end of the year if she did not buy more Thai rice, and Burma has made similar protests.

Now the chorus has been joined by Taiwan, South Korea, Italy and "other South-East Asian and Mediterranean countries". In the context of the Common Market and "voluntary ceilings" it is perhaps not unexpected that everyone will try to get easy trade by this sort of blackmail, and the pressure from these countries may lift when the effects of the upturn in the U.S. economy reach out to the big rice-importing countries in Asia.

But it nevertheless needs condemning when in the modern world business men and governments revert under temporary pressures to primitive notions of bilater-

ally-balancing trade. It is hard luck on the Japanese that after tremendous efforts to become self-supporting in food they are being forced to buy unwanted rice in order to finance exports. Japan now has a rice stockpile amounting to 430,000 tons—enough to fill 2½ years needs from possible poor crops ahead.

Her dilemma points up the virtues of the admittedly shadowy proposals put forward at the Cairo economic conference earlier this month for an Asian "common market" or at least payments union.

### Singapore Hostile to Rubber Buffer Stock

From G. G. Boland  
Singapore

THE Singapore rubber market, now the largest in the world in terms of turnover, does not favour the creation of a rubber buffer stock on the same lines as tin to stabilise the price of natural rubber. The representative view is that it is best to "let well alone" as the immediate market outlook is healthy and price fluctuations now comparatively small.

Dealers point out the difficulties which the tin buffer stock has experienced and particularly emphasise that Russia and China could wreck a rubber stabilisation scheme just as easily as they had nearly wrecked the tin agreement by dumping metal at cheap prices on world markets.

Dealers are of the opinion that the only recent sharp fluctuation in price had resulted from the bad timing of the Federation Government's introduction of legislation to close the Bank of China branches. This caused heavy selling of rubber at a time when there was less support for the market. The Federation Government, it is felt, should have made the announcement when Russia was a strong buyer,

and should have consulted the trade.

Singapore market circles also point out that America could release rubber from stockpile at any time and Britain was lukewarm to stabilisation schemes. Between them the 2 nations have 1½ million tons of rubber in stockpile.

There is also the question of the level at which the price can be stabilised—certainly not at the present high levels—and it must bear relation to the selling price of synthetic at around 72 cents.

The question of stabilising rubber prices was actively put forward by the French at the Jakarta International Rubber Study Group meeting in 1957, but was more or less shelved at this year's meeting in Hamburg in the absence of a satisfactory system being worked out. Since then it has been increasingly brought forward by the Federation Government, which sponsored a recent successful proposal on the subject at the United Nations a week or so ago.

Figures issued by the Straits Trading Co. Ltd. showed tin shipments in the first half of this month were down 49½% to 688 tons compared with the first half of November. U.S. shipments fell 62½% to 245 tons.

Detailed official rubber export figures for November show that Russia was Malaya's best customer again last month for the second time in succession. The Soviet lifted 16,455 tons against nil for China, 14,986 tons for the United States, 13,648 for Britain and 9,514 for Japan.

During the eleven months Russia shipped 56,306 tons or 5½% of total Malayan shipments during the period, while China accounted for another 6½%.

Latex exports last month at 10,658 tons were the second highest this year. Exports in the eleven months were up 8½% to 105,377 tons.

### Malaya Tackles Rubber Stabilisation

From D. M. Fenney  
Kuala Lumpur

THE battle lines are being drawn here on rubber stabilisation, a scheme which the Government has had under consideration since the beginning of the year and which it now seems keen to push forward. But in this case it does not have the industry wholeheartedly behind it and it is possible that the producers will flatly condemn it.

There are no details yet of what the Government has in mind as a means of flattening out the fluctuation in rubber prices in a market which is renowned



for its sensitivity but it seems likely that it is considering a buffer stock with variations of the type that was recommended as the only practical way of stabilising sometime ago.

In a speech in the Federal Legislative Council, the Minister of Commerce and Industry, Mr. Tan Siew Sin, made no specific mention of a buffer stock but said that the Government considered that it was not beyond the bounds of practicability to devise a scheme for rubber having "modest and not too ambitious objectives." The object would be to moderate excessive price fluctuations.

The Minister said that an essential prerequisite of the scheme was finance and said that Malaya would welcome help from the International Monetary Fund or other international institutions. The IMF set great store by the balance of payments difficulties because these were central to the problems of the great trading nations. However he had suggested at the Commonwealth Trade and Economic Conference in Montreal that these should be changed to allow the financing of schemes such rubber stabilisation.

"The matter of commodity agreements is central to the problems of the primary producers and they include the great majority of the nations of Asia and Africa and of such countries as Australia and New Zealand," he said. "Moreover it is commodity price instability that is very often the source of balance of payments difficulties. The idea is undoubtedly novel but we are living in an age when novel solutions may have to be devised for novel conditions."

The idea is certainly too novel for many businessmen and rubber producers in the Federation and Singapore. Mr. H. B. Hussey, the chairman of the FMS Chamber of Commerce, put the other side in a speech in the council.

He pointed out that in the United States there were reserves of 1,250,000 tons of rubber and in Britain the stockpile was between 200,000 and 300,000 tons. The co-operation of these two countries was necessary or the stabilisation scheme could be wrecked overnight.

There was also an unknown factor.

"How much rubber has Russia and Communist China got?" he asked. Nobody knows. They have been buying heavily for a long time. They may be using it. But there is every possibility that they will do the same as they did with cotton and tin. He also warned: "If we start a scheme for rubber then they can wreck that just as easily and successfully as they have wrecked other schemes."

The history of rubber stabilisation is an interesting one. The present Government has always been keen on it because of the damage that fluctuating prices do to the economy of the country. The budget, for example, is never more than an inspired guess because fluctuations in the prices paid for rubber and tin are reflected in the export duties paid to Government and can turn a deficit into a surplus and vice versa. Of late the practice seems to have been to slightly underestimate the probable average price during the year and hope that everything turns out for the best. The effect throughout the economy is unfortunate as wages rise and fall with the prices of the two main commodities.

Sometime ago a Malayan Government official, Mr. P. F. Adams, was sent abroad to study the marketing of rubber and the causes of fluctuations. His report (which, incidentally, is required reading for anyone wishing to study the subject) discussed several stabilisation schemes but considered the most practical would be on stabilising the price of natural rubber around the price of synthetic through a buffer stock of at least 100,000 tons which at today's prices would cost a little under \$200 millions. The report warned, however, that "the cost of doing so would

probably more than outweigh the advantages to be gained."

The Government did not commit itself at that time on a scheme for stabilisation but since then appears to have warmed towards it. The difficulty is that a year ago the Government might have got a much more sympathetic hearing for a buffer stock scheme but the manner in which Russia, with the help of a world recession, smashed the tin buffer stock is a telling factor in many people's minds against a rubber buffer stock.

If the Ministry of Commerce and Industry has in fact a buffer stock in mind, it will be interesting to see what proposals it has for guarding against a similar danger.

### Replanting Progress

By the end of this year, it is considered, Malaya will have set up a world record for replanting old smallholdings and rubber estates with high-yielding natural rubber trees.

An official of the Natural Rubber Development Board said here, "No rubber producing country in the world has replanted more rubber than Malaya after the war. By the end of the year we will have replanted and new planted 1,100,000 acres. Unfortunately it is mostly estate replanting."

The future would therefore be a good supply of good quality rubber available at a fair price to compete with synthetic rubber. Seventy per cent of the smallholders had still to replant and they were tackling this problem through an extensive publicity programme.

High yielding rubber today gives at least twice as much rubber per tree as old trees, sometimes considerably more.

### RICE IMPORTS

(thousand long tons)

	1957	1956	Quarters						1958 Months		
			2	1	4	3	2	1	Sept.	Aug.	July
India .....	736.4	325.2	190.8	100.1	61.9	149.5	295.0	230.0	—	12.8	31.6
Ceylon .....	514.7	483.6	79.8	92.6	151.1	111.6	140.3	111.7	—	—	19.2
Indonesia .....	494.0	668.7	—	—	103.8	164.9	143.4	81.9	—	—	—
Pakistan .....	418.8	610.8	—	48.0	129.5	137.4	73.4	78.5	—	—	—
Malaya & Singapore (net) .....	403.2	503.7	110.0	106.8	81.2	118.7	76.0	127.3	—	—	—
Japan .....	341.9	747.6	261.6	120.8	56.8	24.7	210.8	49.6	—	—	—
Hongkong (net) .....	291.2	269.2	85.2	87.2	45.2	96.5	57.0	92.5	—	33.1	47.0
S. Korea .....	163.8	—	—	—	10.8	47.8	96.7	8.5	—	24.3	37.7
Philippines .....	118.3	41.7	56.4	26.3	56.5	30.3	12.8	18.8	—	—	24.0
British Borneo .....	69.9	60.8	13.8	14.6	19.2	19.1	12.7	18.9	—	19.3	31.9
Laos .....	—	23.9	—	—	—	—	4.9	2.3	—	2.9*	6.0*

\* Incomplete.

Source: Commonwealth Economic Committee, London.





## WORLD OF EAST ASIA

*Russia's offer of economic aid at the Afro-Asian conference in Cairo this month had a mixed reception from delegates. In this article the writer*

*discusses the practice—as distinct from the promises—of Chinese and Soviet assistance to the less advanced countries.*

### Sino-Soviet Economic Penetration into Underdeveloped Countries

By an American Student of Soviet Affairs

IN 1953 the Soviet *bloc* began to use economic programmes as a means of expanding its influence in the less developed countries—particularly in Asia and Africa—which are struggling for national identification and economic improvement. Through offers of credit, technical assistance and trade to underdeveloped nations, the *bloc* is seeking to promote its political objectives of raising its own prestige and power and reducing the influence of the West.

The Soviet *bloc*, including mainland China, has a gross national product of U.S.\$280 billion, and the U.S.S.R. is the second largest industrial power in the world. The Soviet countries produce many of the materials, including machinery, required by the less developed nations for their economic development. Owing to centralised control of industry and commerce, the *bloc* can arrange to absorb large quantities of the raw materials produced by the emerging countries—on which they are largely dependent for foreign exchange.

It is improbable that the Sino-Soviet *bloc* could undertake to support the industrialisation of the less developed countries on a wide scale without a serious and perhaps irreparable strain on its own internal economy. But it can safely give this trade-and-aid assistance on a more modest, though still impressive scale. By selecting individual countries whose political alignment with it is considered most suitable, the *bloc* can arrange to absorb some—or in some cases all—of their basic products, furnish sizeable loans and deliver the equipment desired.

In pursuing its aims the *bloc* encourages existing tendencies towards rapid industrialisation, nationalisation, expropriation and disruption of traditional ties with the West. This can lead to internal political and economic disturbance, which has the simultaneous effect of discouraging the entry of Western capital, making it less easy for the emerging nations to profit

from the managerial skills, technical know-how and capital resources of the industrially mature West.

These intentions were again made clear as recently as September, 1957, when the Russian Far Eastern expert, E. M. Zhukov, quoted Lenin's remarks that "we are devoting all of our efforts so that Mongols, Persians, Indians and Egyptians should draw closer to us and merge with us. . ."

Economic penetration has been implemented in four major ways: credit offers, technical assistance programmes, trade agreements and commercial penetration activity. The following pages give concrete evidence of the real disadvantages experienced by many recipient countries.

#### Soviet Credits

Soviet economic assistance is almost always extended in the form of loans: very little grant assistance has so far been made available. Essentially these loans are lines of credit for the purchase of capital goods, raw materials and technical assistance from the *bloc*. In negotiating agreements, the *bloc* gives no evidence of wanting economic justification for the projects involved.

Where development plans exist, Soviet credit underwrites projects already decided on by the recipient—sometimes based on recommendations of western institutions. In such cases the *bloc* will be able to disclaim responsibility for failures. But normally projects are selected to have the maximum psychological effects on the recipient country and propaganda value. In some cases this will result in economic imbalances in the recipient country.

The type of project most frequently financed has been spectacular in nature and not necessarily designed to produce a basis for expansion of real output. The actual effect has been inflationary in countries where implementation has been most rapid, as in Afghanistan.

The U.S.S.R. has extended some U.S.\$125 million to Afghanistan for "economic development." The short-range projects sponsored by Russian credit are calculated to give the Afghans the feeling that development is actually taking place. It is estimated that funds at least equal to the amount of Soviet credit must be raised to cover the indigenous share of project expenses. The eventual cost to Afghanistan of the total aid programme, including credit extended for arms purchases, as well as interest and local costs, could therefore run as high as U.S.\$350 million.

Repayment for projects must be made in goods, and the effect of Afghanistan's drawing down all of the U.S.S.R. credits would be to tie up a large percentage of its exports for many years. It is doubtful that the aid given will sufficiently stimulate production of exportable commodities to permit Afghanistan to liquidate its indebtedness. The Afghans are already beginning to appreciate the economic implications of the indebtedness they are assuming: Foreign Minister Naim recently indicated to the U.S. and Soviet Ambassadors that his country could accept no further loan assistance.

Similarly, in order to repay its *bloc* credits, the Syrian region of the United Arab Republic will be required to direct a considerable portion of its exports towards the Communist *bloc* for many years to come. Furthermore, Syria is required to defray all local currency costs of the development programme—estimated by a Syrian official to represent 70% of the total. Since these projects are estimated to cost U.S.\$390 million, a dangerous degree of money creation is threatened, resulting in serious inflation.

The Beirut newspaper *Le Jour* commented on the 1957 Syrian-Soviet economic agreement with the words: "The Syrian economy until 1970 will be strictly controlled by the Soviet Union. . . . What will happen if Syria cannot pay off this enormous debt which it has contracted with a great power which has always dreamed of planting its hegemony over the Near East?"

The door is opened to political developments through these programmes: opportunities for collection of intelligence are created, and the gain in Soviet "respectability" and prestige strengthens the local Communist and front parties. Once in train, the programmes can also be used to exert political leverage through fear of non-delivery, delivery of low-quality goods, refusal to buy or supply after traditional market patterns are destroyed,



uncertainty as to whether a flexible attitude will be maintained towards alteration of plans or extension of additional credits in case of local difficulties, etc. Since the motivation is political, no reliance can be placed by the recipient country on the pressures of normal commercial considerations towards continuation in the pattern established.

### Laos Example

This was well illustrated by the attempt of the Pathet Lao in early 1957 to make the acceptance by the Royal Lao Government of substantial foreign aid from Communist China a condition for political settlement between the Pathet Lao and the Government.

Yugoslavia is another example: after the Soviet-Yugoslav reconciliation of 1955, the Soviet Union agreed to advance U.S.\$285 million for industrial expansion. But early in 1957, after differences with Marshal Tito over the Hungarian Revolt, the U.S.S.R. suspended implementation of the credits. Later in the year they were resumed, although a three-year postponement of the completion of an aluminium plant, the largest undertaking, was imposed. However, in May, 1958, Russia again unilaterally and almost without warning suspended the credits—supposedly for five years, although the Yugoslavs considered this tantamount to cancellation.

The low interest rates offered have proven somewhat illusory, since a number of service charges have been added to the loans with the net effect of raising overall project costs. Even technical assistance rendered through the U.N. provides for the purchase of goods and services exclusively from the *bloc*. Thus recipient countries are prevented from obtaining the maximum benefit from loan funds by purchasing the most suitable goods at the lowest world prices. An additional burden is the relatively short repayment period, seldom more than 10 to 12 years, requiring large payments within a short time.

Other examples of disappointment with Soviet credit schemes are:

(1) The much-publicised bakery complex in Kabul built by the U.S.S.R. to produce western-style bread which the local population dislikes, preferring its traditional *nan*.

(2) The Aswan Dam—although the U.S.S.R. clearly caused the Egyptian Government to understand that it was prepared to finance the U.S.\$1.2 billion dam project, it failed to provide this aid after U.S. and U.K. offers were withdrawn.

(3) Recently Russia promised to clear stretches of jungle for the Ceylon Government's development scheme, but it transpired that the Russians had no suitable equipment.

(4) The huge Madukiamo sugar mill in Djokjakarta, Indonesia, built with East German credit under supervision of East German technicians and scheduled for completion in August, 1956, had not yet produced any sugar in August, 1958, even though formally dedicated on May 29 with the announcement that production would begin on June 5. Large quantities of cane rotted at the mill while East German technicians sought to clear up the persistent breakdowns, and the still usable cane was finally shipped to other mills at a loss of about U.S.\$500,000.

While the East Germans accused the Indonesians of incompetence or sabotage, the Indonesians countered that the trouble lay in the unorthodox cooling and lubricating system and in the fact that the mill was designed to process sugar beets rather than cane.

An instance of internal disturbances resulting from credit projects is the Czech petroleum refinery being built in the Homs region of Syria. Syrian workers have demonstrated against the Czechs because they found it difficult to earn what they expected—or what local employees of the U.S.-owned Iraq Petroleum Company were earning on time-rates. The Czechs had recruited in the rural villages where labour is cheaper, and paid on a piece-work basis.

### Technical Assistance

The number of *bloc* technicians in underdeveloped areas increased by about 15% last year. During the first part of 1957 approximately 2,100 specialists visited the 19 *bloc* aid recipient countries for periods of a month or more. During the last six months of the year this figure rose to about 2,400.

Most of the increase consisted of military personnel assigned to the five countries receiving military aid, and the 600 to 800 increase over 1956 was largely due to the expansion of the military mission to Egypt. Non-military specialists increased from about 1,500 in the first half of 1957 to about 1,600 in the latter half—mostly in Afghanistan, Egypt and Indonesia.

During 1957 well over 2,000 technicians, professional people and students from the underdeveloped countries travelled to Moscow for special courses or training. Five hundred enrolled in universities and other higher education institutes.

A technological institute has been provided in India and nuclear laboratories in Egypt and Yugoslavia. Russian specialists have made sweeping recommendations for the re-organisation of Indian technical education.

These technicians have opportunity for political influence. Communist slogans have had to be removed from the masonry of an Afghan building into which they had been built, part of the Soviet programme. Some members of the Sudanese Government suspected that an East German team which failed, after a year's survey of underground water resources in the Kordofan province, to locate any supply of water was more interested in gathering intelligence than finding water.

Similarly no progress has been made with the Bulgarian Trade Mission's offer to construct a meat plant, tannery, soap factory and other projects in Ethiopia, although it has been touring extensively by car carrying cameras.

Numbers and cost of Soviet technicians are another factor to be considered. More than 400 are estimated to have arrived in India: the cost of their transportation, wages and living quarters has to be borne by the local economy. Some of them are very narrowly specialised and lack the flexibility to cope with closely related problems.

### Trade Agreements

Since 1953 the Soviet *bloc* provides technical assistance through the United Nations Technical Assistance Programme. In 1954 Russia was joined by Czechoslovakia, and in 1956 by Hungary, Bulgaria and Rumania. The U.N. has undertaken to acquaint recipient countries with Soviet equipment, supplies, technical experts and technical education facilities, thus performing in part the function of trade promoters and industrial advertisers for the Soviet *bloc*.

Trade agreements with underdeveloped countries usually go to economies dependent on one or two agricultural crops or industrial raw materials, highly vulnerable to variations in yield and price fluctuations. The *bloc* offers favourable terms for hard-to-sell export surpluses. Once reliance is developed on the *bloc* as a trading partner, any change would create serious internal economic disturbance, and close economic relations therefore tend to continue indefinitely.

Consistently the *bloc* tries to re-orient the trade of underdeveloped countries by demanding bilateral trade agreements in return for its purchase of their exports. These require switching imports to the



*bloc* to achieve bilateral balance.

Thus Afghan trade has transferred increasingly to Russia, and during the Pakistani blockage of supplies entering Afghanistan during the summer of 1955, vital Soviet petrol deliveries were suddenly curtailed—apparently by coincidence, but serving to bring home to the Afghans their economic dependence on the U.S.S.R. Similarly most of Egypt's cotton has been going to the *bloc*, so that Egypt has steadily lost ground in its traditional markets in the U.K., West Germany and elsewhere.

As a result of the rice-rubber agreement between Ceylon and Communist China, China owed Ceylon £13.5 million sterling which it was reluctant to pay in cash. The Ceylonese finally agreed to accept rice in partial payment. The means of payment for the remaining unpaid balance was still not agreed on by February, 1958. The London *Economist* commented:

"The Chinese move is a good example of the opportunities trade agreements give of exerting economic, and eventually political pressure. If Ceylon refuses to renew the agreement on China's terms, it risks losing both a market and the money which it is already owed. If it accepts, it will have to restrict its imports from other countries, disregard its obligations under GATT, and allow its economy to become still more vulnerable to pressure from China. China, on the other hand, is now a free agent; now that the embargo has been lifted, it can obtain rubber at competitive prices from other countries."

### Barter with Burma

U Nu's comment at a press conference that "a man who takes barter when he can take cash must be out of his mind" embodies the Burmese disillusionment over this kind of trade with the *bloc*. Following an internal rice slump in 1954, Burma resorted to barter with the Communist countries to dispose of unsold stocks. In 1955 and 1956 Burma concluded barter agreements with China, East Germany, Russia, Poland, Rumania, Czechoslovakia, Hungary and Bulgaria for periods ranging from one to five years. Officially these agreements were referred to as the "clearing accounts system."

Burma managed to market a substantial percentage of its rice surpluses through these agreements, but it accumulated large credit balances with the *bloc* which it had to draw down in overpriced *bloc* goods. Many items on the Communist "available" list proved to be unavailable and it was necessary to take substitute goods.

U Nu said in May, 1956, that "our experts have laid before us the implications of barter trade, that prices are manipulated so as to place us at a disadvantage by 10

to 30% on the goods exchanged." In the case of Hungarian goods, the ultimate prices on some proved to be as much as 50% above those quoted prior to conclusion of the agreement.

Burmese warehouses are full of Communist electrical goods which do not fit Burmese sockets, cement which does not set, asbestos roofing sheets which are the wrong size, plumbing fixtures which do not fit Burmese pipes, congealed condensed milk and Czech liquor which no one will drink.

Burma's agreement to accept cement as a barter commodity proved almost disastrous. Soviet freighters unloaded 42,000 tons of cement in Rangoon alone, filling all available warehouse space and blocking the unloading of badly-needed consumer goods from other areas; port income was simultaneously choked off. Much of the cement was ruined by monsoon rains, while Burmese requests to halt or even slow down the Soviet deliveries were ineffective. Members of Chambers of Commerce in Burma complained that a month passed before Moscow answered commercial inquiries.

Deliveries proved quite unpredictable: often they were delayed from 3 to 10 months, causing loss to Burmese merchants after expiration of their import licenses.

Although the U.S.S.R. absorbed 40% of Burma's entire rice exports to barter countries, the goods shipped in return accounted for only 12.5% of barter imports. Since China supplied 50% of the barter goods, Burma incurred a serious deficit with China, while it has found it difficult to utilise its net credit with Russia. The *bloc* has not been willing to arrange for a transfer of balances among the countries within it.

Meanwhile quantities of Burma's bartered rice were re-exported by Soviet *bloc* recipients in direct competition with Burma's normal trade. Communist China, in particular, profited on Burma's rice by re-selling it to Burma's own regular customers, according to *The Nation* (Rangoon) October 9, 1957.

Trade representatives of the *bloc* also have opportunities of political work. In Iran Soviet traders have insisted on dealing directly with chosen merchants, granting sizeable profits in return for "kickbacks" which are then used to pay for intelligence expenses. Felix Aghayan, one of Iran's leading importers, told a *Christian Science Monitor* correspondent: "I always feel that in dealing with the Soviets I'm dealing with someone who wears a political suit first and a trade suit second. We resent the Soviet trade officials here . . ."

Similarly in Greece one tobacco

merchant gave 5,000 *drachmae* to the Greek-Soviet League in order to be allowed to continue exporting to the *bloc*: such extortions were reported to be organised by the Soviet Embassy through third parties.

### Arbitrary Suspension

Two examples of political trade suspension occurred in Australia and Israel. In the 1953-4 season Australia sold 30 million lbs. of wool to Russia, but Russia buying stopped after the Australians granted asylum to Petrov, the U.S.S.R. official who defected.

A week after Israel invaded Egypt, Soviet shipments of fuel and crude oil were cut off in an obvious attempt to exert political pressure. This caused hardship to Israel, whose ships were waiting to load at Black Sea ports—the loss was reckoned in millions of U.S. dollars. The Foreign Trade Arbitration Commission of the Soviet Chamber of Commerce finally, in mid-1958, exempted the Soviet trading organisations from accountability on the ground that the U.S.S.R. Government's prohibition of the fulfilment of the contracts constituted a *force majeure*. Under the terms of Soviet contracts there is no appeal from such a decision.

Complaints have often been made of shoddy goods delivered under trade agreements. A 7,200-ton cargo of kerosene purchased by Egypt from Rumania at bargain prices turned out to be so inferior that it was necessary to refine the entire cargo at considerable expense. Soviet wheat recently arriving in Egypt was discovered to be animal feed, and bread made from it turned green. Afghanistan has rejected some shipments of Russian cement as "mostly sand."

In Syria a Damascus automobile dealer terminated his agency for East German IFA cars and trucks when customers demanded refunds, complaining of insufficient engine power for moderate gradients and serious engine trouble soon after purchase. The *New York Herald Tribune* reported on December 17, 1957, that the Indonesian Army was bitter about jeeps imported from Russia, complaining that the tyres did not stand up, windshields shattered and motors rattled to pieces—while Moscow was pressing for payments for the shipments that had been made.

And in February, 1957, the Hungarian Commercial Delegation in Iran found itself with 12,000 worthless bicycle tyres rejected by an Iranian buyer. They did not fit any normal size wheel and the quality was so poor that they had begun to deteriorate while in storage.

## Chinese Price Changes

Price manipulation is yet another experience of recipients of Soviet trade offers. *The Nation* reported on February 1, 1956, that Chinese suppliers often raised their prices by 10 to 15% after terms had been worked out and Burmese import licences had been issued. In Hong-kong the Chinese have on several occasions profited from their near-monopoly position by withholding shipments of pigs and poultry until prices rose sharply, then selling to gain extra profits.

Communist cotton buyers in Egypt during 1956 haggled over every point and questioned the quality of shipments—while prices of some *bloc* goods sold to Egypt rose to 40% above world competitive prices.

Resale or dumping of imported goods by the *bloc* is a constant threat. The bulk of Burmese rice—112,000 tons of the 150,000 tons bought by China in 1954 and 1955—was sent to Ceylon, traditionally one of Burma's best customers. Ceylon had to pay U.S.\$20 more per ton for this than if it had bought directly from Burma. Barter rice has appeared in West Germany, and as a consequence Burmese direct sales to Bonn declined.

Again, the *bloc* has resold Egyptian cotton at a 10 to 14% discount on Western markets for hard currency. Recently the Turkish Trade Ministry has directed tobacco sellers not to sell high-grade leaf to Bulgaria because Bulgaria is known to have resold Turkish tobacco to the West.

Nor are the terms of agreements always honoured. After 20 Japanese firms contracted to import 153,000 tons of soybeans from China at U.S.\$39 per ton, the Chinese notified them that only 60,000 were available at that price and demanded a higher price for the balance. And when the price of cotton began to fall in the world market, the U.S.S.R. insisted on revising the 1952 barter agreement with Egypt which provided for the trading of Egyptian cotton against Soviet wheat, both at inflated prices.

## Indian Airlines Talks

A further difficulty is the tendency for *bloc* countries to conceal trade and production data customarily published by other countries and regarded as essential by western business men for planning purposes. Indian Airlines encountered this when they began negotiations for Soviet Ilyushin-14 aircraft.

The Russians refused to supply detailed information about performance, maintenance, and construction necessary to calculate costs of operation and secure certification for airline use. The Russians

proposed that all major maintenance be done in Moscow! The negotiations were dropped.

In dealing with non-Communist firms, the Chinese reserve the right to full or partial rebate from the shipper within 60 days if the local Chinese Commodity Inspection and Testing Bureau finds the goods unsatisfactory. The Bureau's decisions cannot be appealed and it is reported that this device has been used to reject imported goods arbitrarily or insist on paying less than the agreed terms. Since some time elapses between delivery to the inland buyer, inspection and shipping back, some goods are returned to Hong-kong spoiled or damaged.

Swiss traders found unusual difficulty in dealing with East German enterprises at the 1957 Leipzig Fair. One prospective Swiss buyer had great difficulty in inspecting a machine in which he was interested, and only received a copy of the specifications many weeks later posted by the Russian Embassy in Bern.

The Sudanese newspaper *Al Umma* reported on November 19, 1957, that a local firm had sued the Soviet Government for damages on a cement deal arranged through the Soviet Commercial Attaché in Khartoum. When it arrived the cement was found to be of poor quality and badly packed. The chairman of the firm travelled to Moscow to get satisfaction, but the case has now been pending for more than a year.

## Bank of China

The Bank of China, where its branches are controlled by Peking, is an example of

the use of local *bloc*-controlled enterprises for political purposes. According to a Burma press report, the Burmese Government believed that the gains made by the Communist-led National United Front in the April, 1956, elections were largely due to generous financial aid through the Bank of China in Rangoon.

Another important task of the Bank of China is to influence the Overseas Chinese communities in South-East Asia. The Bank gives direct subsidies to Communist-dominated agencies in the form of low-interest, easy-term loans; schools receive funds for the purchase of text books or buildings or for the employment of pro-Communist teachers. Pro-Communist newspapers also receive loans from the Bank.

The Bank offers cheap loans to small businessmen and borrowers, giving preference to those who will publicly support the Communist side by sending their children to certain schools, flying the Communist flag on holidays and not subscribing to anti-Communist or Nationalist papers or organisations. Chinese Communist Embassies or Consulates have an important voice in the approval or rejection of loan applications.

A European example of similar activity was the unsuccessful effort by the Communist-controlled Banque Nationale pour l'Europe du Nord to acquire control of the Bank of Chios in Athens. According to *Ethnikos Kiryx* (Athens), January 19, 1958, it was intended to start a programme of credits to Greek rural co-operatives attaching political strings to each transaction.

A U.S. State Department estimate is that since Russia began her foreign lending programme in 1954, Soviet bloc countries have committed themselves to supplying goods worth U.S.\$1,900 million under deferred payments schemes—up to the end of 1957. Credits of about \$30 million and \$90 million have been granted to Ceylon and Egypt respectively this year.

The latest reports are that Russian feelers are being extended to Ghana to finance the \$500 million Volta River aluminium and hydro-electric scheme towards which Canadian, British, U.S. and French interests have cooled over the last year. But in general a soft-peddalling in Soviet loans is perceptible.

"Lombard", writing in the *Financial Times* (London) on December 11, suggests that this may be because the Soviet countries "are now having to allocate a significant portion of their output to cover the demand for unrequited exports generated by the credits granted earlier on. For the projects for which the first credits were arranged would in many cases only now be reaching the stage at which the machinery and other equipment on which the money is to be spent is actually needed. . . . Naturally, if the Iron Curtain countries are discovering that their existing commitments are absorbing such excess capacity as they have, they will be reluctant to go on adding to those commitments."



Mr. Buu Hoan, research economist with the Commercial Credit Bank of Saigon, concludes in this third article his discussion of the effect of the Geneva

Peace on the Vietnamese economy. This section concerns the impact of the cessation of French and U.S. military spending.

# Impact of Military Expenditure on the South Vietnamese Economy\*

By Buu Hoan

THE Geneva Accords, with all their beneficial results, could but ensure a precarious peace. The fighting was stopped, but nothing was done, or could be done, to remove the cause of war, or even to diminish the threat of aggression and subversion. Such a situation had two consequences: first, the French Expeditionary Corps withdrew from South Vietnam, as there was no more actual fighting. Secondly, South Vietnam still had to maintain an important army, for an indefinite time, to assure her internal security and to defend herself against external aggression. We shall study in this section the economic impact of these two consequences.

## Withdrawal of the French Troops

The French Expeditionary Corps was a major source of foreign exchange, as well as the most important income-generating factor in the home market. The withdrawal of such an army did not occur without causing serious repercussions on the internal economy. The first economic role of the French Army (as provider of foreign exchange) has been analysed elsewhere. The second role (as income-generating factor) consisted of direct military purchases which covered many categories of imported or locally produced foodstuffs and equipment; the services performed by local labour employed as builders, dockers, labourers, and in a host of other jobs; and the consumption of goods and personal services by individual soldiers.

The construction of many defence bases, like those of Saint-Jacques Cape,<sup>1</sup> which was terminated only in 1956, diverted a large amount of labour from civilian production. It was estimated that in 1954 French military expenditures amounted to Pr. 15,270 million, of which

673 million were devoted to construction of defence bases. In 1955, about four thousand million piastres were spent by the French Army in Vietnam. The withdrawal of French troops meant the disappearance of this source of income. The first people to be hurt by such a change were those who had been beneficiaries of French military expenditures; luxurious restaurants, entertainment houses, etc., had to put up their shutters.

At the same time, imports fell by about two thousand million piastres. The output of many French manufacturing firms fell because of the indirect effect of the French withdrawal. The area which suffered the most from the withdrawal of the French was undoubtedly Saigon, the headquarters of the Expeditionary Corps. But many other areas were also affected. The activities of the Tourane harbour, for instance, declined sharply, because of the cessation of hostilities as much as of the loss of the hinterland which, after the partition, happened to be located on the other side of the 17th parallel.<sup>2</sup> But more important was the problem of unemployment originated by the departure of the Expeditionary Corps. According to official statistics, the registered unemployed, subsequent to the French withdrawal, amounted to more than 85,000 people.

It should be mentioned here that the withdrawal of French forces, in terms of income and employment, was largely compensated by two new factors: the decision of the United States to assume responsibility in Vietnam, with the subsequent result that military and economic aid was made directly to Vietnam, instead of through the channel of France; and, second, the necessity of South Vietnam to maintain an important army for her own defence.

The first factor has been studied elsewhere. The second factor will be considered.

## Economic Consequences of Defence Expenditure

Perhaps the most satisfactory way of analysing such a complex problem is first to draw up a financial table indicating the sources of funds devoted to military purposes, and second to budget the supply and demand of real resources.

The figures in Table II contain numerous ambiguities, approximations and loopholes and should not be taken as literal quantitative measurements. Some are mere estimates (figures from budgets), while some represent amounts actually spent (figures from the balance of payments). Many data are not available, shrouded in the veil of military secrecy. In spite of this state of affairs, this table shows some useful things:—

First, the national contribution to the defence programme, in financial terms, was marginal. A small part came from government revenue, as the contribution of the national civil budget to the military budget. It amounted to about 7% of the total military budget in 1955. Another part of the national contribution was government borrowing, either in the form of drawing on the Reserve Fund, or of advances, from the Central Bank, or even of overdrafts on the National Treasury.

This was a roundabout way of deficit financing, and accounted for about 19% of the military budget in 1955. The largest part of the defence programme

Table I

Expeditionary Corps	
National servicemen demobilised . . . .	14,000
Civilian workers dismissed . . . . .	18,176
National Army	
Servicemen demobilised and civilian workers dismissed . . . . .	16,000
Auxiliary Army	
Demobilised or dismissed . . . . .	20,000
Total . . . . .	68,176
Unemployed in the private sector, caused by the withdrawal of French troops . . . . .	17,000
Overall . . . . .	85,176
Source: U.N. Economic and Social Council. Full Employment and the Balance of Payments Policies. 26 Oct. 1956 Mimeograph.	

\* We are now able to publish this section of Mr. Buu Hoan's paper, which is not, as was previously announced, to appear in Pacific Affairs.

<sup>1</sup> See George Chaffaud, "L'Indochine à l'épreuve de l'indépendance" in le Monde, Paris daily, 6-7 January 1957.

<sup>2</sup> See United Nations, Les Perspectives du Développement Economiques au Vietnam" Rapport No. 539—New York 1956—pp. 410-411.

originated from international aid (the French contribution, and, since 1955, the American contribution), and amounted to 75% of the military budget in 1955.

These funds were used to cover military current expenditures as well as military capital expenditures. Current expenditures include salaries and allowances to the national armies, and particularly for the year 1955, covered continuous military actions against dissident elements within the country. Military capital expenditures

government of Vietnam and the United States. Periodically, as the needs of the Vietnamese Government's Treasury required, funds were transferred from the counterpart fund to the national military budget.

However, this procedure was slow, and the piastre proceeds were not available until six to nine months after the dollar aid had been allocated and used. Under the pressure of military needs, a new procedure of cash grants was adopted.

The total figures of the recruits were less than 5% of the total working population. They were not unreasonably high, as compared with two other countries in the same situation, Formosa and Korea. Further, a fundamental economic problem in Vietnam has been how to find sufficient work for a population which cannot possibly be supported on the land but for which there appears to be no adequate outlet in the immediate future. Quite apart from the perennial problem of underemployed rural labour, there was a large reserve of unemployed labour in towns, due to the migration of rural population to the cities, the withdrawal of French troops, and the closing down of many French firms. The influx of some 800,000 refugees has merely added to the problem.

In view of these factors it is difficult to believe that defence demands for manpower seriously reduced the supply available for normal civil production. However, in the short-run, there were some shortages of labour. The reserve of skilled and semi-skilled labour in Vietnam was very small. As the allowances and the salaries of the soldiers were relatively high, it was likely that recruits would come, not from rural workers, but from non-rural sections and hence would create some bottlenecks in sections which required skilled labour. One may notice frequent strikes in recent years in plantations as well as in public utilities.

Also, as is shown in a wage survey taken in January 1955, covering the cities of Saigon, Cholon, Hue, Tourane and Dalat Bannethout, wages constantly increased faster than the cost-of-living since 1950. The situation might have been mitigated if there were controls over labour thus preventing the squandering of talents in less useful activities.

Besides the recruits to the armed forces, the defence programme required goods and services purchased by military authorities. This covered many categories of foodstuffs and material purchased for

Table II

Military Expenditure <sup>1</sup> (in millions of piastres)				
A. The military budget	1952	1953	1954	1955
1. The National contribution	1,765	2,906		2,876
from revenues				( 880)
deficit financing				( 1,996)
2. French contribution	694	1,185	4,168	719
3. American contribution				7,816
4. Total	2,459	4,091	13,409	11,405
B. Military expenditures, total expenditure, and government revenues				
5. Total government expenditure	3,547	5,732	16,954	15,697
6. Total government revenue	2,941	4,565	1,470	5,112
7. Military expenditure as percentage of total government expenditure	70%	71%	83%	76%
8. French military expenditure: current expenditure	10,934	11,334 <sup>2</sup>	13,991	2,030
Capital expenditure	522	2,110 <sup>2</sup>	673	?

Sources: Items 1 to 6: United Nations, *Economic Survey of Asia and the Far East*, various issues.

Item 8: Banque Nationale du Vietnam, *Balance Generale des Payements Annee 1955*.

<sup>1</sup> Here we are only concerned with the local expenditure in Vietnam and not the total military expenditure. For the estimates of the whole cost of the Indochinese war, see *International Financial News Survey*, Volume, VII, No. 6, August 1954.

<sup>2</sup> Actual figures are given in francs, respectively 142,968 and 31,659 million francs.

included new buildings for military purposes, or purchases of military equipment. The largest item of the budget was payment of salaries and allowances of troops, which accounted for more than 70% of the total military budget.

Not included in the above items was the financing of the army by direct aid, or aid given in kind, besides the budget support aid. Direct aid provided the Vietnamese armed forces with fuel, spare parts and many other supplies and equipment purchased by the United States Department from its direct military assistance funds.

Some words should also be said about the different ways by which American aid generated piastres with which to support the national military budget. The piastres which the Vietnamese importers paid for I.C.A.-financed imported goods were deposited in a special account called the counterpart fund, at the National Bank of Vietnam. Customs levied on these imports were also deposited in the same account. The counterpart funds were under the joint administration of the

By these grants, the piastres needed to meet the approved military budget were purchased from the National Bank of Vietnam, at the official rate, either with U.S. Treasury checks, or with foreign currencies. Table III shows the sources of the counterpart funds.

Our next task is to analyse the diversion of economic resources which a defence programme entails. Using the national income data provided by the National Bank of Vietnam for the year 1954, we can draw up the table of resources available and required for defence expenditures:

What forms did military demands take and how important were they? In the first place, Vietnam contributed recruits to the armed forces. Table V shows Vietnam's defence capacities with regard to manpower.

Table III

Sources of the counterpart funds (in millions of piastres)			
	1951-1954	1955	June 30, 1956
Commercial import programme	1,005	1,479	1,596
Customs receipts	95.6	227.9	618
Direct exchange for U.S.\$	1,000	2,827	1,470
Direct exchange for other currencies		1,312	
Total	2,101	5,846	3,685

Source: USOM to Vietnam. Research and Statistics Section. *Monthly Statistical Documents*. Unpublished document.



the army and the services performed by local labour; also the consumption of goods and personal services by individual soldiers.

capital formation could not have been very large, for the simple reason that there was so little industry in South Vietnam. The records of the war years afford a

paradoxical, though explicable, picture of capital formation. On the one hand, there was a boom in construction activity which only started to decline in 1955. In real terms, public works expenditures also rose (1952 prices) from Pr. 340 million in 1952 to 407 million in 1953 and Pr. 422 million in 1954. On the other hand, many parts of the country were devastated. Transport and communications suffered heavily. In 1954, it was estimated that in South Vietnam, 1,112 kilometers of main roads were destroyed, at least 36% of the railway needed to be reconstructed; the tonnage of dumb vessels is now about 1/3 of what it was in 1945 (at present, 100,000 tons) while the fleet of self-

propelled vessels and tugs has been reduced to less than half (now, 10,972 tons)<sup>3</sup>.

by the public sector in South Vietnam was about 2% in 1954, 3% in 1955, as compared with total government expenditures, and about 8 or 9% as compared with the civil budget. It is obvious that when defence is about 70 to 80% of the total expenditures, there is not much left for other purposes<sup>5</sup>.

We have examined the military demands on the resources of the Vietnamese economy. Our next inquiry is how the supply of output will react, in an underdeveloped economy, when there is a continuous expansion of effective demand. The Vietnamese economy consists of two main sectors: internal activities supply the basic foodstuffs and simple manufactured goods, and external trade is the means of obtaining all capital equipment, raw materials and manufactures. The elasticity of supply of foodstuffs depends primarily on the rate of population growth, the area of arable land and available savings. Population has increased greatly recently, as much because of the high rate of growth (estimated at 2.5% per year) as because of the migration of refugees. As a consequence agricultural output per capita may tend to fall.

However, in South Vietnam arable land which is unused remains abundant, and even with the sudden increase in population, the pressure of population on land is still among the lowest for the countries of Southeast Asia.<sup>6</sup> Private savings are de-

Table IV

Defence Expenditures and Resources Available (1954)  
(in millions of piastres)

Resources Available		Resources Required	
1. Gross national product	114,415	1. French military expenditure	15,270
2. Imports of goods and services	19,499	2. Gov't current expenditure	12,982 <sup>a</sup>
		3. Exports	4,949
		4. Domestic consumption	93,329
		5. Gross capital formation	7,384
		Civil invest.	6,711
		Military investments	673
			133,914

Total Resources Available 133,914.

Sources: Compiled from data appearing in Banque Nationale du VN, *Estimations du Revenu National du Vietnam en 1954*, Saigon 1956, and id., *Balance Générale des Paiements de 1955*, Saigon, 1956.

Note: <sup>a</sup> Government current expenditures would cover largely military expenditure. In point of fact, according to the budget estimates of 1954, military expenditures alone accounted for 13,409 million piastres. The cessation of hostilities would no doubt entail a downward revision of the military budget.

It should be remembered also, as the National Bank of Vietnam has insisted, that the interpretation of these data should be made with caution. Estimates were made for undivided Vietnam for a period when it was difficult to collect statistics. Many documents were destroyed during the transfer of power from the French authorities to the National government.

To what extent was civilian consumption reduced to contribute to war and defence? The order of magnitude of the main changes in consumption is difficult to determine in view of the paucity and inaccuracy of the statistical material. However, as the financial responsibility of war and defence was carried first by France, later by the United States, the nation was provided with a flow of foreign exchange to import consumption goods. The hardship imposed on some sections of the population was due rather to an uneven distribution of wealth caused by inflation, and an absence of control over income and expenditure. No effort was made during the war to keep savings and taxation in step with the current defence expenditures.

The effect of military expenditure on gross capital formation is more difficult to calculate. It could be reasonably argued that resources that could be made available through reductions in gross

At present, little is known about the capital formation of the private sector. However, a rough estimate of the impact of the defence program on the public sector can be made. In most countries in Southeast Asia the ratio of capital formation of the public sector to the capital formation in total is very high and tends to go higher. In 1952, for instance, it was 37% in Burma, 50% in Ceylon, 26% in Japan, and 28% in the Philippines, and if we compare public capital expenditure with total government expenditures, it is respectively 41%, 39%, 40% and 21%<sup>4</sup>. Gross capital formation

<sup>3</sup> United Nations, ECAFE, *Economic Survey of Asia and the Far East*, 1955. Bangkok, 1956.

<sup>4</sup> See the illuminating table—*Gross National Product Capital Formation, and Public Finance*, in ECAFE, Vol. 53, 1954, p. 2.

Table V

South Vietnam's	Manpower	Resources
Population	.....	11,500,000
Working population	.....	5,000,000
Rural workers	.....	4,370,000
Persons physically fit for the service	.....	1,500,000
Army	.....	165,000
Security	.....	50,000

Source: United Nations, *Balance of Payments and Full Employment Policies*; Gen. John W. O'Daniel, Vietnamese Defence Capacity, in *A Symposium on America's Stake in Vietnam*, published by American Friends of Vietnam, Sept., 1956.

<sup>5</sup> It should be mentioned here that during the period under review, (1954-56), another form of capital formation took place through Economic and Technical Assistance projects, and Refugee Programmes. In 1955, counterpart funds earmarked for the projects amounted to 1,362 million piastres, and were roughly the equivalent of 8% of the total government expenditure.

<sup>6</sup> This point has been largely developed in United Nations—*Les Perspectives du développement économique au Vietnam*—Rapport 539—1956—pages 33-34. Also see Annex VII (Utilisation du sol au Vietnam)—p. 524—of the same report.

ficient, but it might be expected that either through public savings, or through external aid, funds may be provided for the settlement in new land (the projects of Caisay, and in the Central Highlands). Some other difficulties in the way of increase in output which arose through the system of land tenure might be solved by an appropriate land reform programme<sup>7</sup>. In short, agricultural output may not be as inelastic as may be supposed at first sight, though progress in this field will be slow<sup>8</sup>.

The domestic production of manufactures is subject to severe limitations because many of these goods are made with costly un-economic methods, and cannot easily compete with imported goods, particularly when the latter are more or less subsidised by an over-valued currency. Further, the lack of adequate

storage, poor transportation and power facilities, and the inadequacy of the arrangements for the supply of credit are some of the other factors which may limit expansion of domestically manufactured products.

Given a fixed volume and value of exports (which are notoriously inelastic) the supply of imported goods depends on the magnitude of external aid, the policy of the Vietnam government, and the ability of local importers. Imported goods may not be expanded as quickly as required by the expansion of income if these factors are given: 1) lack of experience on the part of importers, 2) the slow procedure in external aid, 3) a restrictive reserve policy, 4) a cumbersome price and import control policy on the part of the government (a price control policy which may set prices which would be considered as below cost, and an import control policy which may set too narrow the range of eligible imports). To the extent that these factors could be

removed, imports would be more elastic to home demand. In point of fact, progress has been made in Vietnam in the attempts of "filling the commercial aid pipeline" (to use I.C.A. jargon). Table VI shows this rate of progress.

To summarise, given a fixed amount of military expenditures equal to, say, 60% of the government budget, and a level of external aid adequate to compensate for the deficiency in goods available for civilian purposes, the defence burden on the economy may manifest

domestic investments, i.e., how to increase Vietnam's absorptive capacity. But to discuss this point is to go beyond the scope of this paper.

### Defence Contribution to Economy

We have insisted on the conflicting aspect of a defence programme and economic growth. In many ways these two factors are complementary. In the first place, security is the prerequisite for economic progress. The success in political stability and military security would encourage more investment, foreign and domestic. Secondly, as we have seen, not all military expenditures are spent on current accounts. Some contribute, indirectly, to capital formation. When houses are built, roads reconstructed, harbours repaired, even primarily for military purposes, these greatly contribute to increasing Vietnam's external economies. Further, when soldiers have the opportunity of travelling, or of being trained in various jobs, they are better equipped for their future careers. And if there is a policy of vocational guidance or training in the army, or better still, a programme to use them in some productive way, perhaps we are killing two birds with one stone: while defence is not diminished, we are increasing our economic potentialities for growth.

Economic growth, in its turn, contributes to security. It is obvious that if we succeed in increasing the national output, we shall be able to mitigate any repercussions on domestic consumption due to military demand. Finally, it should be remembered that ultimately economic factors will be decisive in the battle between the North and the South. The peasant in the North of South Vietnam knows what is going on in the South of North Vietnam, and if he finds that he has not got as good a living as the chap in the North, then communism is going to win. The difference between our rates of growth and those of the Vietminh will decide the outcome of the battle in the long run. The arithmetic sign of this difference will spell the finale; plus for victory, minus for defeat.

Whether the sign will appear positive or negative will depend on how soon the Vietnamese take steps commensurate to the gravity of the situation.

Table VI

	The Rate of Commercial Aid Utilisation (millions of U.S. \$)				Total
	July 1, 1954 to Jan. 1, 1955	Jan. 1, 1955 to July 1, 1955	July 1, 1955 to July 1, 1956		
Uncommitted funds ....	3.6	48	129		
Allotments issued .....	51.0	175	208		438
Total available .....	54.0	223	338		
Licences issued .....					
Licences, as percentage of total available ....	6.0	93	259		359
	11.0%	41%	76%		

Source: According to data from the *Statement of Mr. Leland Barrow*, July 14, 1956. Unpublished document.

itself through these points: 1) some bottlenecks in the labour market may occur, if the recruits come from the skilled labour force; 2) economic activities in the import market may rise at the expense of the export market and the home-produced goods market; 3) capital formation may slow down; 4) some rigidities which exist on the supply side may prevent output from keeping pace with military expenditure, and hence may generate inflationary pressure. An expansion of incomes may spend itself either on imported goods, or on rises in price.

### Consumption Cuts

If it were thought timely to increase the rate of capital formation, while keeping military expenditure at the same level, attempts should be made to convince the public of the necessity for making additional sacrifices for their future. In other words, some cuts in consumption should be imposed either through increased taxation, encouraging of saving, or through having recourse to inflation. If imported consumer goods could be reduced, foreign exchange might be released for more imports of capital goods. The problem would then be how to "marry" foreign capital to

<sup>7</sup> See Land Reform Act in Banque Nationale du Vietnam *Bulletin Economique*, October 1956.

<sup>8</sup> In point of fact, the area of rice fields increased from 1.7 million hectares in 1954-55 to 2.1 million hectares in 1955-56, with a production of paddy rising from 2.1 million tons to 2.7 million tons in the same period—(data quoted in *The Colombo Plan Cooperative Economic Development in South and South East Asia*, Formal Report, 1957—p. 121).



*Our Correspondent in Saigon reviews the foreign trading figures of South Vietnam for the first ten months of this year, and points out the sad decline in her exports and imports to October.*

## Vietnam's Trade Falls

By François Nivolon

**S**OUTH Vietnamese foreign trade, both imports and exports, declined during 1958. In the first 10 months of the year imports fell by 1,796.6 million Vietnam piastres to VNP 6,550.6 million from the same period of 1957.

Similarly exports fell by VNP 717.3 million to VNP 1,507.5 million. In the same first ten months of this year, the balance of payments deficit was reduced from VNP 6,132.4 million (73%) to VNP 5,043.1 million (77%).

On the import side France maintained her position as leading supplier. The rise in the exchange rate from 10 to 12 francs to the piastre—against the wishes of the Vietnamese authorities, but following the rates of U.S. currency in Paris (420 francs to the U.S.\$) and Saigon (VNP 35 to the U.S.\$)—counterbalanced the French Government's abolition of the special support for French exports to Vietnam.

Imports from France amounted to VNP 1,660.8 million (including VNP 51.5 million from French overseas dependencies)—representing 25.4% of total Vietnamese imports. This compares with VNP 2,438.2 million (29.2% of total imports) in the same period last year. Imports from France remained

particularly large in transport equipment, textiles, pharmaceutical products, common metals, machinery, electrical equipment, rubber manufactures and paper manufactures.

Imports from other suppliers showed a drop in value, notably the U.S.—VNP 1,548.9 million or 23.6% of the total, down by VNP 416.7 million—and Japan—VNP 1,310.4 million (20%), down by VNP 557.2 million.

On the other hand imports from the U.K. rose slightly from VNP 157.4 million (1.9%) to VNP 180.2 million (2.8%). The U.K. was, however, still far behind Indonesia (VNP 400 million or 6.1%) and West Germany (VNP 389.5 million or 5.9%) as a supplier. Imports from Hongkong at VNP 43.8 million (0.7%) remained very small.

France and her dependencies also remained the principal customer for Vietnamese exports in the first ten months of 1958. She took VNP 834.4 million, or 55.3% of total exports. This was far ahead of Malaya (VNP 210 million or 13.9%) and Indonesia (VNP 118 million or 7.8%).

Exports consisted mainly of rubber and rice, as usual. Rice exports fell from 173,552 tons in the first ten months of 1957 to 115,152 tons in the same period

### VIETNAM'S FOREIGN TRADE

(VNP million)

	First Ten Months	
	1958	1957
<b>EXPORTS</b>		
France & colonies ..	834.4	1,327.8
Malaya .....	209.7	71.9
Indonesia .....	118.0	11.6
U.S. ....	62.8	381.2
Cambodia .....	62.2	65.4
U.K. ....	32.3	2.3
Japan .....	17.0	126.6
<b>IMPORTS</b>		
France & colonies ..	1,660.8	2,438.2
U.S. ....	1,548.9	1,965.6
Japan .....	1,310.4	1,867.6
Indonesia .....	399.9	407.6
West Germany .....	389.6	485.3
U.K. ....	180.2	157.4
Taiwan .....	160.2	255.8
India .....	110.9	60.9
Cambodia .....	82.0	101.7

of 1958. The principal buyers were Malaya and Indonesia; only 5,000 tons were shipped to French overseas territories.

Rubber exports decreased theoretically from 58,665 tons to 47,327 tons in the same period. But in fact about 10,000 tons sold in October, 1956, were shipped only in January and early February of 1957. France bought 89% of Vietnam's rubber, but it must be noted that some rather important shipments were made to the U.S. in October and November.

Vietnamese rice and rubber exports amounted to VNP 1,346 million during January-October, 1958, representing 89.2% of total exports.

## BOOKSHELF

Japan's Renaissance—and  
Foreign Investment

By Dick Wilson

JAPAN'S ECONOMIC RECOVERY; by  
G. C. Allen; Oxford University  
Press; 25s.JAPANESE INDUSTRY 1958; The  
Foreign Capital Research Society, c/o  
The Bank of Japan, Tokyo.

IT is only twelve years since Japan surrendered: her economy, already grossly disrupted by the demands of total war, lay then in physical and psychological ruins. Now the index of industrial production is two-and-a-half times its pre-war (1934-6) level, Japan is the world's largest shipbuilder and has resumed her place as the leading industrial power in Asia, high in the ranks of the world's industrial nations.

The story of this extraordinary recovery is a fascinating one, and Professor Allen of London University has enhanced his reputation as an observer of Far Eastern economics in his latest book. Of course the Japanese in effecting their resurgence were favoured by exceptional circumstances—first, the Korean war and its windfall of procurement; second, the world investment boom of the mid-1950's, which brought a demand for tankers that western shipyards could not meet; and third, the Suez crisis, which gave Japan an edge over her European competitors in Asian markets.

But these pieces of fortune would have been shortlasting had not Japan made genuine efforts to re-organise herself in her new economic circumstances. She was handicapped by American-inspired improvements in labour standards which, as Professor Allen admits, "may prove to be too far advanced for the absorptive capacity of the Japanese economy"; by the loss of her traditional trading link with China; by the diffusion of economic organisation implied in the initial break-up of the *Zaibatsu*; and by high material costs—in the early 1950's the cost of coking coal per ton of pig-iron produced was double that of West Germany or the U.K.

These problems were largely overcome by determined efforts to raise productivity

and efficiency and by sound financial policy—as well as by the industrial community's tradition of hard work and capacity to learn new techniques. The country moved away from the American reforms (although land redistribution and advanced industrial relations in particular found strong roots) towards the natural "combination of large-scale organisation at the centre with a wide diffusion of the actual processes of production" which Professor Allen characterises as leading to "the emergence of a highly efficient industry."

(Incidentally the successful use of the small unit in Japan's earlier industrial revolution, in which the great merchants and manufacturers provided finance, know-how and access to markets for the small-scale sector, sheds considerable light on China's "Leap Forward"—set in a similar environment of relative scarcity of capital and relative abundance of craft labour).

What of the future? Professor Allen steers a careful course between optimism based on past performance and pessimism based on the specially favourable factors of the past decade and the inherent handicaps in the Japanese economy. He points out that in textiles—the one industry in which Japanese costs compare most favourably with her competitors—there is "little hope for a sustained expansion of foreign sales", and her advantages will surely be smaller in synthetic-fibres, which are properly an activity of capital-intensive industries.

Nor is Japan well placed in metal and engineering, for which many Japanese economists concede she is a marginal supplier in world markets. Professor Allen's words, that "as productive capacity overtakes demand in the world's capital-goods industries, or if a slump occurs, she may be the first to suffer," have begun to come true in the past year.

Further, the re-orientation of China means that "the immediate prospects, even in the absence of the embargo, are of only moderate commercial expansion in

that market." Finally the natural Japanese market of the 1950's—South-East Asia—is politically unstable.

On the other hand Japan has made spectacular advances in certain exports, notably sewing machines, optical instruments and radios. Professor Allen argues that the economic effects of dependence on American procurements in the early 1950's were not necessarily harmful, and suggests that the price elasticity of demand for Japan's exports is greater than was once supposed.

In spite of political uncertainty, the South-East Asian market offers considerable scope to Japan, which has the advantage over her western competitors of a supply of relatively low-paid technicians (as even Singapore, where anti-Japanese sentiment is probably stronger than anywhere else, is now finding). There is also a potential demand for chemical fertilisers for Asian agricultural programmes that Japan is well placed to meet.

In his conclusion Professor Allen turns to the less tractable domain of sociology, and questions whether the Japan of today—the Japan of *pachinko*, juvenile delinquency and the Sun-clan—has the idealism and moral fervour to repeat her earlier economic achievements. As he says, Japan is in the unhappy position of being midway between the equally compelling attractions of a strong national tradition and a western modernism of which the social bases are uncertain.

The Asians regard her as "a modern state masquerading as undeveloped" while Western eyes are more drawn to the "vestigial remains of a pre-industrial society" that are still at the heart of the country. In the resolution of this schizophrenia lies the future of Japan—and perhaps of democracy and economic liberalism in Asia.

*Japanese Industry 1958* is the ninth revised edition of *Japanese Industry after the War—Foreign Investment Possibilities*, which was first published by the Foreign Capital Research Society in 1950 to provide a summary of the country's key industries. It constitutes a most useful compression of industrial information and statistics up to 1957, the year in which Japan launched her 5-year economic programme.

The authors in their foreword take the opportunity to comment on the European Common Market, though not by name. Japan, they declare, "will need special consideration of the buyer countries that from the standpoint of development of world trade they do not



adopt import restriction measures, including the raise of import tariffs."

The point is rubbed home by the sentence that follows: "Japan is at the same time to be prepared to furnish credit to underdeveloped countries by way of covering their foreign currency shortage as well as to expedite technological and economic co-operation."

A rapid glance down the 1957 figures brings home the advances made in the output of household electrical appliances, of machine tools, of trucks, of ships, of radios, television sets, telephones and switchboards, of synthetic fibre materials and resins. On average, production of these items last year was nearly 60% above the 1956 level.

The foreign capital investment figures show that in the fiscal year 1957/8 a total of U.S.\$115.6 million was validated and \$103.4 million effectuated, bringing the cumulative total since 1949 up to \$435 million and \$345 million respectively. Since then, in the first five months of the current fiscal year, to end-August, a further \$175 million has been validated.\*

As at end-June, 73% of the validated acquisition of stock and proprietary interest with participation in management was by U.S. investors, 13% British, 5% Canadian, 4% West German, 2% Dutch, 2% Panamanian and 1% Hongkong. Equivalent proportions for

acquisition of claimable assets arising from loans were U.S. 56%, World Bank I.B.R.D. 35% and U.K. 9%. Of the technological assistance contracts 66% were U.S., 8% Swiss, 6% West German, 3% British, 3% French, 3% Italian and 3% Dutch.

## The End of Despair

Suicide In Hongkong; by P. M. Yap;

Hongkong University Press; \$10

THE incidence of suicide is a most revealing indicator of the health of any society, and studies of this in Asian countries undergoing vast social, political and economic change are all too few. The research by Dr. Yap, the distinguished psychiatric specialist, is therefore most welcome, the more so because it is particularly fully and excellently interpreted.

The Colony's crude suicide rate in 1955 was 0.0235% of persons over 15 years old—quite comparable with other countries, although there was a higher incidence of both actual and attempted suicide among older people, especially women, than is normal in western countries. Dr. Yap makes interesting comparisons with traditional Chinese society (Peking in 1917) and with contemporary American Chinese.

He concludes that there is no special Chinese racial pattern of suicide, and that the Hongkong pattern—like that of

Singapore Chinese—is "probably characteristic of Chinese only in marginal Chinese societies in South-East Asia undergoing rapid modernisation and as yet underdeveloped."

Within Hongkong the rate for post-war immigrants was five times higher than for the Hongkong-born and pre-war immigrants. "A clear relationship," Dr. Yap suggests, "between the political and economic upheaval in China and the post-war rise of the crude suicide rate in Hongkong could be demonstrated."

## Trade & Growth Theory

INTERNATIONAL TRADE AND ECONOMIC GROWTH; by Harry G. Johnson; George Allen & Unwin,

London; 25s.

PROFESSOR Johnson's new book is not for the beginner. The Professor of Economic Theory at the University of Manchester has collected into one volume studies on three related topics—Comparative cost theory, trade and growth, and balance of payments theory.

The three subjects relate to each other and have been treated with a common purpose (to consolidate the work of previous theorists and extend it to new problems) and a common method—applying mathematically-based logical analysis to theoretical problems thrown up by discussion of current topics, particularly of economic policy, among economists.

\* According to Japanese Ministry of Finance figures republished in the Industrial Bank of Japan's *Survey of Japanese Finance & Industry*, July/August, 1958, pp. 16-7.





# HONGKONG AFFAIRS

## New Year—and New Industries?

By the Editor

**T**HE New Year is a good time to assess the achievements of the twelve months that have passed, consider the changes that the next twelve will need, and form the resolution to bring those changes about.

This week, appropriately, we publish contributions from two leading residents of the Colony, Mr. P. A. L. Vine and Professor E. S. Kirby, on the immediate needs of Hongkong in terms of institutional and policy change. Their conclusions are rather similar, in that they both, *inter alia*, advocate the provision of a large-scale lending agency for new industry.

These two articles should be read in conjunction with the tables on page 852. These figures, calculated from the official Department of Commerce & Industry returns, attempt to show at a glance how the Colony's goods have fared in world markets so far this year, and how the re-export trade has altered its pattern. They deserve careful study.

The re-export trade appears to have declined by about one-eighth during the first 11 months of 1958. To some extent this is part of the general decline in our entrepôt trade since the war, but there were also special factors at work, including the world-wide trade recession. The largest falls took place in the most important categories: 37% in gold and specie, 19% in textile yarns, fabrics and made-up articles.

But this was partially compensated by increases in three sectors. Chemical materials and products rose quite considerably, mainly because of a very much higher demand for re-exported fertilisers and explosives—which should continue into next year. Machinery and transport equipment re-exports very nearly doubled, the increase being most marked in the field of electrical machinery, and it is reasonable to expect that this trend should continue, if on a more modest scale.

Finally re-exported clothing apparently increased by almost two-thirds, presumably reflecting the higher entrepôt in mainland Chinese products (underwear,

knitted goods and shirts?). Although China's goods will flow at an increasing rate into South-East Asian markets, it is by no means sure that they will continue to go through Hongkong.

By and large, the re-export record for 1958 is a fair one, considering the overall declining trend and the impact of world recession. What about Hongkong's own exports? Here the picture is not so good.

It is true that in the first 11 months of this year these exports have risen by 2% in value. But this is little more than marking time in the contemporary world, and a closer look at the breakdown of that figure reveals some disturbing trends.

The outstanding development of the year has been the falling exports of cotton yarns, piece-goods and singlets—each of which ranks high in the list of exchange-earners. The lesson is clear, that Asian consumers are more and more relying on domestic producers of these relatively simple manufactures, while European and American customers are running into a revival of domestic protectionism too.

The battle in Europe and America should not be regarded as lost, for everyone must hope that economic liberalism will arise once more in its birthplace, but for the moment the emphasis in textiles must be put on garments and higher-quality goods. It is here that the figures are most disquieting. Shirts dropped by one-tenth this year, gloves by about the same, stockings by one-fifth—and underwear, nightwear and embroidered linen made hardly any headway.

The only important category to show an encouraging rise was outerwear, which has been gaining in the U.S. market, although mackintoshes and other impermeables showed a fall of one-fifth.

The total field of textiles showed an increase of 2% during the year—and it constituted 62% of the total export earnings. If the biggest money-makers continue to decline, much more must be expected from the remaining industries, and these for the most part have also been marking time.

To look at the bright spots first, both footwear and the general omnibus group of toys, games and fancy goods have recorded commendable increases—of about a quarter and a third, respectively. But the metal industries present a depressing outlook. The three most important—electric torches and accessories, household utensils and lanterns—each lost ground.

Household enamelware and aluminiumware only edged down by 1%, it is true, and the hollow-ware makers, as reported on page 853, are pleased at maintaining their position after the disastrous setback of 1957. But the other two lost between one-fifth and a quarter. Several other quite important sectors also lost headway, including paints and varnishes, buttons and studs, travel goods and umbrellas. Even plastics, on which high hopes are placed by some observers interested in the Colony's economy, only just maintained their position.

It is true that many of these goods have also been affected by the recession and by financial restrictions in South-East Asian markets. But this particular handicap should surely have been offset by the Colony's efforts during the year to enter into new markets in Europe, America and Africa. The need for more prospecting in these areas is becoming urgent.

It is no good finding new customers unless you have the goods they want, however, and the basic need in Hongkong is for more manufacturing enterprise—and more advanced manufactures. Mr. Vine suggests that car-assembly should not be too far off as a Hongkong activity.

If it is true that existing initiative is frustrated by lack of finance, then it should be the concern of everyone—private commerce and Government alike—to fill the gap. There is, after all, quite a lot of capital about—the Government's stock holdings are not inconsiderable, the utilities in the Colony bring in quite good profits and the U.K. Government could probably be stirred to take an interest.

If some means were found of utilising this money to supplement the available supply of capital for industry—a supply that is variable and uncertain because of the political risks and the high proportion of "hot money"—then the future economy of the territory would look somewhat more hopeful. If Sarawak can provide such a service for its citizens, it should not be impossible for Hongkong.

*In these two articles on the Colony's future, two distinguished residents argue the case for an institution for lending*

*capital to new industry, and for more long term planning.*

## HONGKONG'S FUTURE

### 1. The Need for a Development Corporation

By P. A. L. Vine

A FEW months after the end of the Second World War I was seconded to the War Crimes Organization, which had its Headquarters in Singapore; from there I made several trips to Hongkong. I was struck by the difference in tempo between the two places. In Singapore at that time very little had been done to repair war damage. In Hongkong on the other hand the scars of war had almost disappeared, and all was bustle and activity.

First impressions are lasting, and I remember thinking at the time that if this reservoir of energy could be fully tapped, Hongkong's prosperity was assured. Hongkong had reverted very quickly to its pre-war role as an entrepôt, and was rapidly filling the need for Western-manufactured consumer goods which had been denied to the East during the war years. Manufacturing appeared to be a relatively unimportant aspect of the economy.

I left Hongkong at the end of 1946 and returned as a civilian some months later. I am no linguist but I noticed on my return that more and more people were talking with the sibilant tones of the Northerner.

#### Refugee Capital

In the years that followed, events in China gave a very powerful stimulus to the growth of industry in Hongkong. Shanghai ceased for a time to be an important manufacturing centre. Experienced industrialists came to the Colony as refugees, and somehow managed to bring much of their capital with them. The next few years saw a rapid change in the balance of Hongkong's economy. This shift in emphasis became more obvious with—but was not initiated by—the embargo of 1951 on the sale of strategic materials to China, which placed sudden and severe restrictions upon Hongkong's traditional role as an entrepôt.

The refugee capital which came to Hongkong was put to use with great skill in many types of light industry, but notably in the manufacture of textiles. As success breeds success, much capital was also raised locally and even more was attracted from overseas Chinese in other parts of the world for similar types of development.

Hongkong had much to offer in the field of industrial investment. A resourceful and energetic people; a substantial labour surplus; a minimum of planning restrictions and government interference; taxation at rock-bottom levels which held out promise of permanence; an almost total absence of labour laws; weak and disunited Trade Unions; power at reasonable rates, and government by a benevolent autocracy as an oasis of tranquillity in the East's shifting political sands.

No estimate has been made of the rate of industrial capital formation in Hongkong during the post-war years. It is, I think, safe to assume that capital has been formed here at a rate faster than anywhere else in the Far East. I can see signs, however, that the rate is slowing down. Fewer large companies are being incorporated, and existing companies are reluctant to raise capital by the issuance of new shares. A Stock Exchange Broker has told me that any large new issue has a depressing effect upon share prices.

#### Joining the Chorus

As China grows with immense rapidity into a powerful industrial state, with great sources of natural power and cheap regimented labour, it is inevitable that her manufactured goods should come into increasing competition with the products of Hongkong. China has only begun to exploit her industrial potential. The holiday for Hongkong manufacturers appears to be over. The "sellers' market" in South East Asia has gone.

To a growing extent the Colony has become dependent for its prosperity upon the operation of Imperial Preference.

The much increased sales of Hongkong textiles to the United Kingdom have produced indignant complaints of unfair competition from Lancashire, because of the absence in Hongkong of comparable wage standards or labour legislation.

Now the English hollow-ware manufacturers have joined the chorus. The shadow Socialist Cabinet had already made it clear that if Labour gets into power at the next election, various measures will be introduced to protect U.K. industries which have been adversely affected by Colonial imports. These statements are made with one eye on the marginal constituencies where unemployment has increased, but the threat to Hongkong's economy cannot be ignored.

#### More of a Gambler

Any major weakening of the fundamental principles of Imperial Preference in the United Kingdom would bound to have serious repercussions in other parts of the Commonwealth. Only recently, protests were lodged with the Canadian Finance Minister about the scale of imports into Canada of Hongkong manufactured rubber shoes. These complaints have been rejected for the time being, but if the United Kingdom starts protecting her local industries at the expense of Colonial products, what will Canada's attitude be then?

Even assuming a Conservative victory at the next U.K. election, it is almost certain that there will by then be a voluntary ceiling in force on Hongkong textile exports to the U.K. at levels which have yet to be finally agreed. Mr. Macmillan has successfully managed to convey to the representatives of the Hongkong Textile Manufacturers that it had to be voluntary limitation "or else".

Two other factors relevant to Hongkong's investment programme merit consideration. The first is the security factor. It is a constant source of wonder abroad, particularly in the U.S.A., that any private investor should sink large sums of money in Hongkong. Several articles have been written about the ostrich-like mentality of the Hongkong merchant. It is suggested that he has failed to face up to the military menace of Communist China on his doorstep.



This is not fair to the Hongkong merchant, who can see clearly enough what has happened in Shanghai and what at one time nearly happened in South Korea. He is under no delusions as to the risks he is taking in sinking his money in local projects. The truth is that the risks have been discounted, and are reflected in the high yields which manufacturers expect to get on their capital outlay.

Normally a project is not considered worthwhile unless a return of between twenty and thirty per cent per annum is reasonably assured. The average Chinese industrialist is by nature more of a gambler than his European or American counterpart. As a result, the slice of Hongkong industry owned by non-Chinese has steadily diminished since the reoccupation of Hongkong.

The most important factor affecting the further development of industry in Hongkong has been left to the last. This concerns the availability of bank loans. It is commonly supposed that Banks are prepared to advance large sums for the purchase of sites, machinery, and raw materials on the security of mortgages or debentures.

1½% a Month

It is true that Banks do so to favoured customers at the usual Bank Lending Rate. But the Exchange Banks do not regard it as their primary function to lend money in this way. Their money can be more profitably employed in their main function of financing monetary exchange by means of Letters of Credit and so on. When Exchange Banks are persuaded to make advances to industrialists on the security of mortgages or debentures, they normally insist upon repayment by instalments over a comparatively short period of time.

When an industrialist is unable to obtain a loan from an Exchange Bank, he is obliged to abandon his scheme for development, or raise the money at prevailing money rates outside the circle of the Orthodox Banks. These rates of interest fluctuate to a marked degree, but I suggest that 1.5% per month can be taken as a fair average. Mortgage terms are seldom as satisfactory as in the case of Orthodox Bank loans, and the loans are often called in after six months or a year leaving the industrialist to find the money for repayment elsewhere, and often at an even higher rate of interest.

Increasing competition from China, and financial and other restrictions at the consumer end, do not offer much encouragement to the average Hongkong industrialist to borrow money for new manufacturing ventures. It is unfortunate that Government has seen fit to introduce certain Estate Duty amendments at this particular time.

There are many indications that the tightening of the Estate Duty net is the "last straw" which will induce many wealthy citizens to transfer their capital from Hongkong to places where the security risk is not so great. At the very least, these Hongkong merchants will not be encouraged to bring further funds to the Colony from abroad.

The Estate Duty Amendments have been put forward, with the most high-minded motives, just at the moment when other Colonial and Commonwealth countries are striving to attract light industry of the Hongkong type to their own territories. Both Malaya and Sarawak have recently launched "pioneer industry" schemes, which give approved new undertakings a "tax holiday" for a substantial period.

Government statistics show that Hongkong's textile exports constitute about 40% of the Colony's monthly total. Yet, these exports are particularly sensitive to restrictions abroad, such as those recently imposed in French African territory, and the impending voluntary limitation of exports to the U.K.

The manufacturers of metal products and electrical goods have already felt the pinch of financial restrictions in India and South East Asia. Only a few weeks ago the Nam Jam Factory, which makes torches, was forced to dismiss its workers, throwing nearly 900 men and women out of work.

In the face of these discouraging influences, it would, I suggest, be over-optimistic to hope for substantial new investment in Hongkong industry unless some way can be found to ease the financial burden of high interest rates, and to stimulate new and more advanced manufacturing techniques.

This stimulus can, I suggest, be given by a Development Corporation, which has the means to encourage the right types of industrial development. It might well be considered, for instance, that too many eggs are in the Textile basket at the moment, and that encouragement should be given to other types of industry in order to aim at a more balanced economy. Loans would be

granted to suitable applicants at low rates of interest, repayable over a reasonable period of time.

Hongkong would reap the benefits of a Development Corporation in many ways. New industry would make a practical contribution to the problems of unemployment and under-employment. Industrial areas could be prepared for factories (possibly of the flatted type) with some degree of probability that applicants would be available to occupy them as they became available.

Development Corporations have been operating for years in the U.K. and many other countries of the Commonwealth. Accounts for the year ended on March 31st, 1958, have recently been published by the Development Finance Corporation of Ceylon, and this will serve as an illustration for this article.

DEVELOPMENT FINANCE CORPORATION OF CEYLON			
Balance Sheet at 31/3/58			
Liabilities			
Share capital			
Authorised			
80,000	ordinary		
	shares of Rs.		
100/-	each		
Issued			
71,178	ordinary		
	shares	.....	7,117,800
Interest free loan from Ceylon			
Government	..		16,000,000
Other items	....		235,351
			Rs.23,353,151
Assets			
Loans to industry (Less repayments)			
			5,665,200
Investments	....		11,330,120
Bank deposits	..		6,166,109
Other assets	....		191,722
			Rs.23,353,151

A curious feature of the accounts is the fact that the loan from the Ceylon Government is free of interest, and there is no good reason for duplicating this feature if a Development Corporation is established in Hongkong.

The other surprising feature of the Ceylon Development Corporation is the extent of its unused funds. This illustrates the caution of the Directors, who have evidently been able to resist

the temptation to act as Father Christmas to a wide range of dubious enterprises. The Corporation has considerably increased the amount of money on loan during the year, and no doubt its funds will be fully employed within a further two or three years.

So far as Hongkong is concerned, a figure of \$50,000,000 might, I suggest, be a useful initial capital (by way of subscription for shares or loans) for a Development Corporation here.

### Car Assembly in Hongkong?

The Directors of the Hongkong Development Corporation could perhaps be given a discretion to include as a clause in any loan agreement that in the event of Hongkong ceasing to be a British Colony the amount unrepaid of the loan outstanding at such date would be deemed to have been written off. Such a clause would, I suggest, encourage industrialists abroad to establish more advanced types of industry here. It would, for instance, be a major achievement if the British Motor Corporation were to start a car assembly plant in Hongkong and other vehicle manufacturers might follow suit.

The Chairman of the Chinese Manufacturers Association has recently urged Government to set up an Industrial Bank to assist Hongkong manufacturers with the financing of export orders. At the moment these often cannot be accepted because the funds are not available to make the necessary purchases of raw materials. If a Development Corporation were established it could very well use a part of its funds for short term finance of the sort which the Chinese Manufacturers' Association have in mind.

According to the last Annual Report the Hongkong Government has over \$400,000,000 tucked away in sterling investments, and \$20,000,000 invested in Federation of Malaya Stock. Would it not be desirable to lend \$50,000,000 from these reserves to a Development Corporation? Until the Corporation had an immediate use for the funds, this could be accomplished by a mere transfer of sterling investments to the Corporation. Experience in other parts of the world has shown that bad debts are almost non-existent, and nearly all loan repayments are made on time. There would thus be a revolving capital which would be turned round every five or ten years.

I think it very probable that local banks would be prepared to participate with Government in a Development

Corporation, and they would supply the wisdom and experience essential to such an undertaking through their nominees on the Board of Directors.

The Financial Secretary, like Polonius, may hold the view that the Hongkong Government should "neither a borrower, nor a lender be." Such advice should be rejected, if it means that the further development of Hongkong industry is to be slowed to a halt by a lack of money at reasonable rates.

I anticipate criticism of this article on the ground that I have failed to show any specific demand for facilities from a Development Corporation. This criti-

cism is valid up to a point, but it is extremely difficult to show a demand until the proposal is at least under consideration. I can only point again to the success of similar projects in other parts of the world.

A case does exist for the appointment by Government of a committee to study the proposal that a Hongkong Development Corporation should be established. I am not suggesting that a Development Corporation is a panacea for all Hongkong's economic ills. As a means of "priming the pump" of local industry, the proposal does not deserve to be ignored.

## 2. The Need for Planning

By Professor E. Stuart Kirby

*Department of Economics & Political Science,  
University of Hongkong*

**A**N eminent economist, visiting the Hongkong Products Exhibition, noted that all the lines of goods displayed there represent shrinking markets. All the Asian countries—and many in other "underdeveloped" continents—are endeavouring to make all these things for themselves, and are more and more severely excluding them from their imports.

The developed countries of the Western Hemisphere are interested in such products, and could certainly afford to take much more of them in future; but, as we well know, there are severe frictions and resistances in that quarter also.

In both these outlets, furthermore, Communist China is now a sweeping competitor, in just the same lines of manufactures. The manner in which Mainland China has "rushed" the South and South East Asia markets in 1958 has in fact aroused considerable alarm and antagonism against that country. The estrangement of Japan is intensified. Malaya reacted with significant speed, and to the point. Swings in other East Asian countries towards the "military leadership" pattern of government may have been distinctly influenced by this tide rising out of China. If the Peking Government was as astute as is often believed, perhaps it would refrain from thus appearing in a disruptive, under-cutting role, in an Asia which longs above all for a tranquil and assured basis on which to work towards an ordered progress.

However that may be, the Communist trade drive is likely to have an unfortun-

ate effect on Hongkong—not merely in the direct impact on Hongkong, which is now quite visible in the presentation by Communist China of the same lines of minor manufactures as Hongkong, but in the indirect impacts as well. One of these is the raising of barriers generally, already referred to above, which makes the overall export situation more difficult. Another, less generally realised, is that more suspicion will be directed against Hongkong, as a gateway through which this type of export from China comes. It may become increasingly necessary to authenticate Hongkong products, as goods of genuinely Hongkong origin, for other markets besides the U.S.A. Hongkong cannot serve very well as an entrepôt for China, unless China participates in an evolutionary, rather than a revolutionary manner in Asian development.

### F.B.I. for Colony?

The proposal for some form of Federation of Hongkong Industries needs more than lukewarm support, as it could be of much help in watching this increasingly complex situation, foreseeing specific developments in the directions mentioned above, and in coordinating and speeding up the responses we may have to make, to changes and contingencies which may come suddenly. The same applies to another intelligent proposal which has been advanced—that of an Industrial Development Corporation. "Too little and too late" could well be the writing on the wall for Hongkong.



The role of a free-enterprise freelancing entrepôt is withering away, in a changing world, even more surely than that of relying entirely and exclusively on cheap labour as the basis of the economy. One's prediction must be that international dealings will be increasingly bilateral and more and more programmed, in this Region and others. All these are now planned economies; every one of them has a longer term plan or course of development, charted over at least a generation ahead, and within that perspective a current five-year plan at present in operation. In this set-up, Hongkong is increasingly an odd man out, even a misfit. It can play an integral part, in such a structure, only by adapting itself radically to it.

### End State of Drift

In the first post-war decade, the situation in Asia was extremely fluid. All the countries were unsettled, with a myriad changing needs and deficiencies competing for a very scarce supply of the means of satisfying any of them. In a seller's market, procurement was the decisive aspect. Hongkong was well placed then, and its trade and industry responded well to the situation. Now, the countries have crystallised their situations and intentions. They have laid down their foundations and floors, and are building on these for their own futures; for which they have quite definite ideas and designs, including especially their own industrialisation. The seller's market has turned into a buyer's one.

It is still an important function to discover and develop new markets not previously identified or entered into. But future progress for Hongkong will depend much more largely on knowing the development policies and plans of all these Asian countries, and on being ready and able to fit in with the predetermined network thus established. This logically requires having some longer-term perspective of policy for Hongkong itself; and may well necessitate dealing with those other countries on their own "planful" basis through bilateral negotiations, credit or barter arrangements, or whatever other methods such relationships may require.

The alternative is to be pushed to the side of the track. May we hope that the New Year may see the beginning of the end of the state of drift for Hongkong, which seemed to prevail in 1958. There are a few hopeful signs. Notably the recent announcements by H. E. the

Governor that Government is going to extend its market research services and is to establish another representational office overseas. Improved statistics are also promised for the New Year. The brisker, more go-getting and down-to-earth "new look" of the *Far Eastern Economic Review* is also a little pointer of encouragement. On the other points, more information is very much to be desired. Where will the new "Hongkong Consulate" be? What are in fact the market research services the Government performs, and in what ways are they going to be extended? It is not clear how many persons there are in Hongkong who in fact know what "market research" means.

Much more than these unitary steps is however required if Hongkong, for the remainder of its leasehold on History, is to be anything more than a Super-Macao. The latter is undoubtedly the position it would have if it devoted itself solely and passively to the role of outlet and inlet for Mainland China—which is what some local patriots, and even some Homeside interests, loudly advocate. Fortunately, as we know, Hongkong has developed a much wider role, serving the World Economy as a whole.

### Only on Sufferance

All this is from the business and economic viewpoint, which is normally the one with which we almost exclusively concern ourselves. When we come to weigh the political considerations, the dangers of drift are even sharper. From the point of view of one particular party, Hongkong now exists only on sufferance. It exists only so long as it keeps one step ahead, posing the challenge of capitalism and free enterprise so effectively that it would be awkward to change its status, and so long as it is more advantageous to all concerned to keep it as it is.

The only future for Hongkong lies in taking up this challenge of co-existence. In performing so efficiently as a capitalist unit serving both sides and all comers, in being so effectively organised as such a unit, and so extremely useful, so closely fitted to the new emergent pattern of Asia, that it will be both undesirable and infeasible for the party concerned to take it over. The more, as time goes on, it falls short of these requirements, the more imminent will be the take-over. Complacency in 1959 will be as misplaced as it was in 1941.

Is all this general reasoning "academic"? Surely not more so than reckoning in terms of one's individual

interest for five years ahead—which is the Hongkong normal. In hard reality, the point has probably been reached when there will not even be a five-year prospect, if a twenty-year one and a fifty-year one are not defined.

### Deal as Equals

Are more concrete suggestions required? Plenty of them could be stated. But it may be useless to do so until the preliminary point is realised that the present basis is inappropriate and actually dangerous, that a general re-orientation is necessary, rather than specific devices.

Moreover, it is an error to attempt to approach these questions first on the plane of higher policy, when the position really is that the basic facts are unknown and unstudied. We do not even know the most elementary data—e.g., what our population is. If this is remedied in 1961, as is now hoped, it should be done in such a way as will enable productivity judgments, occupational distributions, etc., also to be derived from the Census. Much else that is commonplace elsewhere, for all purposes of planning and policy-formulation, is simply non-existent here, and looks like remaining so.

The first task may really be to lay these statistical and analytical foundations. Only then can we begin to deal as equals with mid-twentieth-century economists and statesmen, as a modern state with other modern states. It is doubtful whether there is a livelihood in any other relationship.

## The 1958 Trading Record

The following two tables show at a glance the changes in Hongkong's foreign trade during the first eleven months of 1958: they give an effective picture of the 1958 record. Exports of Hongkong manufactures have risen 2%, while re-exports of imported goods have fallen 13%. The latter provided 61% of the Colony's total earnings. Its decrease reflects lower purchasing power in S.E. Asia during the year and a consequent slump in the export of gold and specie, as well as a fall in most re-exported textiles.

### HONGKONG'S RE-EXPORT TRADE

H.K.\$ million

First eleven months

	1958	1957	% change
Textile yarns, fabrics & made-up articles .....	287.3	354.0	-19%
Gold & specie .....	236.9	376.7	-37%
Food (other than fruit & veg.) ..	184.7	178.9	+ 3%
Chemicals (other than medicinal & pharmaceutical) ..	125.6	98.0	+29%
Fruit & vegetables .....	105.7	107.5	- 2%
Animal & vegetable crude inedible materials .....	105.5	105.2	nil
Medical & pharmaceutical products .....	78.3	74.6	+ 5%
Clothing .....	75.6	46.4	+63%
Machinery (incl. electrical & transport equipment) ..	63.1	33.5	+88%
Others .....	512.7	677.3	-24%
<b>TOTAL .....</b>	<b>1,775.4</b>	<b>2,052.1</b>	<b>-13%</b>

Source: Calculated from Department of Commerce & Industry figures for exports of Hongkong products and total exports.

## Pots and Pans in the News

**H**ONGKONG manufacturers of hollow-ware remained unperturbed at the *Financial Times* report of the flurry caused in the United Kingdom at the arrival of a consignment of locally-made enamel utensils. Like most local industrialists, they appear to have resigned themselves to these constant protests on the part of United Kingdom producers, and to have adopted a "what-will-they-find-to-complain-about-next" attitude.

This is not, of course, the first shipment of Hongkong-made hollow-ware to reach the United Kingdom. As far back as 1956 sample shipments were being made, and sales in that year totalled H.K.\$5,697.

The manufacture of enamelware in Hongkong, in which roughly 6,000 persons are currently engaged, has, like

much of local industry, been built up with refugee capital and the largest factories are owned and operated by Shanghai Chinese. The industry formerly specialised in brightly coloured utensils suitable for East Asian and African markets, but in 1954/55 it began to suffer severely from over-expansion, when prices dropped to cut-throat level, and a number of small producers fell by the wayside.

With stiff competition from Japan, where a complete modernisation of the industry has taken place in recent years, and the reduction in the local export price due to internal competition, total exports of locally manufactured enamelled articles fell from H.K.\$76 million in 1956 to H.K.\$66 million in 1957. Most of this was lost in the West African market where, to add to the other difficulties, purchasing power at the time was low owing to poor cocoa and coffee harvests.

### EXPORTS OF HONGKONG PRODUCTS

H.K.\$ million

First eleven months

	1958	1957	% change
Cotton piece goods .....	205.8	211.4	- 2%
Outerwear .....	185.3	127.0	+46%
Footwear .....	86.6	64.1	+34%
Cotton yarns .....	80.6	101.8	-21%
Shirts .....	70.3	77.9	-10%
Household utensils (enamelled & aluminium) ....	67.7	68.1	- 1%
Toys & games .....	58.7	47.8	+23%
Gloves & mittens .....	48.6	53.8	- 9%
Electric torches, batteries & bulbs .....	42.8	52.8	-19%
Underwear & nightwear ...	31.3	31.0	+ 1%
Furniture (wood & plaiting)	30.2	32.0	- 6%
Cotton singlets .....	28.6	34.4	-17%
Preserved fruit & ginger ...	23.1	22.1	+ 5%
Embroidered linen .....	14.6	14.4	+ 1%
Buttons & studs (not of precious metals) .....	13.8	14.3	- 3%
Paints, enamels, mastics, lacquers & varnishes ..	13.0	14.5	-10%
Unembroidered towels ....	12.8	11.3	+13%
Plastic articles .....	10.2	10.2	nil
Metal lanterns .....	10.2	13.5	-25%
Other basket- or wickerware	10.1	9.9	+ 2%
Stockings & hose .....	9.8	12.4	-21%
Travel goods .....	9.5	10.2	- 7%
Umbrellas etc. ....	8.8	10.4	-15%
Impermeable clothing ....	8.4	10.5	-20%
Others .....	45.8	46.8	- 2%
<b>TOTAL .....</b>	<b>1,126.6</b>	<b>1,102.6</b>	<b>+ 2%</b>

Source: Department of Commerce & Industry.

Faced with these difficulties, and acutely aware of the growing potential of China Mainland in this field, Hongkong producers began to make strenuous efforts to raise quality standards, the United States market being the main objective with hopes of developing trade with South America later. In 1957, H.K.\$132,731 worth of hollow-ware was sent to the U.S.A.: from January to November, 1958, H.K.\$132,808 worth was exported.

Simultaneously, in response to enquiries from the United Kingdom, exports to the value of H.K.\$2,880 were made in 1957. From January to November, 1958, shipments rose to H.K.\$8,880, still a drop in the ocean as far as Hongkong is concerned.

Hongkong producers stole a march on their counterparts in the United Kingdom, particularly in African markets, it must be admitted, because internal



competition forced them, to some extent, to accept a lower margin of profit in order to keep their factories in operation.

Total exports from January to November, 1958, show little more than a H.K.\$1 million increase (H.K.\$61 as opposed to H.K.\$60 for the same period in 1957) but this is better than the Hongkong hollow-ware industry itself expected.

It is well aware that it must find other markets if it is to survive, markets where China cannot enter, e.g., the United States; markets where Imperial Preference will give them the edge over Japan, e.g., the United Kingdom. In fact, producers of hollow-ware in Hongkong and the United Kingdom are in very much the same position.

### Lantau Steaks?

**T**HE rocky mass of Lantau Island, some ten miles from Hongkong, and almost twice as large as Hongkong island itself, has frequently been in the minds of those seeking to alleviate the Colony's pressing population problem.

With adequate supplies of fresh water, Lantau might have achieved the greatness of its sister island had it possessed a natural landlocked harbour, but the island did not become British until it was ceded by China with the rest of the Leased Territories in 1898.

Until recently, Lantau Island remained unchanged, a peaceful abode for Buddhist and Trappist monks, its shores fringed by fishing villages. A few Hongkong business men built houses there, to which they could retreat from the hustle of the city; various mission societies erected holiday bungalows; a fine bay became popular for its swimming. But with Hongkong's acute land shortage it was inevitable that Lantau would ultimately be needed to satisfy the appetite of the giant of progress.

Since it is virtually virgin terrain, work has started from the bottom. Good ferry services already exist between the island and the rest of the Colony; small piers for the landing of goods and passengers have been constructed; the China Light & Power Company have brought electricity to the lower reaches of the island.

Recently, to increase Hongkong's water supply, plans were announced for a huge reservoir at the village of Shek Pik and a metalled road to this is due to be completed in the New Year. Cattle breeding has been started in a small way while, on the industrial side, a number of factory owners are investigating the possibilities of suitable sites.

The latest step towards Lantau's development has just been announced, the large scale production of fresh beef for Hongkong. An initial shipment of 700 Australian cattle is due shortly and the originators of the scheme, the Ta Hing Trading Company Limited, is constructing a modern abattoir near the grazing grounds. Australian and European staff of considerable experience in the trade have been engaged to operate what is, for Hongkong, an entirely new project.

Apart from playing an important part in the development of Lantau, residents in general will welcome this scheme to provide a constant supply of fresh meat to Hongkong. At present all beef is imported, chiefly from Australia and New Zealand, although gourmets who seek the best in steaks will opt for one from Kobe. That Hongkong can, and will, produce good, fresh meat is a satisfying thought and the man in the street is left to wonder why the possibilities in this direction were not previously recognised.

### Fish Jumping the Net

**I**NCREASES both in the quantity of fresh marine fish landed, and in the quantity of locally-grown vegetables sold through Government wholesale markets were noted by the Director of Marketing in his report for the month of November, 1958.

The increase in the fish catch is particularly noteworthy in view of the continued difficulties experienced by local fishermen as a result of restrictions on their activities along the China coast. 52,648 *piculs*\* were sold through the Fish Marketing Organization during the month—an increase of 39 per cent over the previous month but still 20 per cent less than the total for November, 1957.

Fresh marine fish from China continued to find an outlet in Hongkong and accounted for 11 per cent of the total landings in November. While average prices for fresh fish remained at much the same level as the preceding months, an increase of 12 per cent over the same period last year was recorded.

Total landings of salt/dried marine fish for November were 45 per cent less than in the same month in 1957 and 14 per cent less than in October, 1958, although it is reported that the quality was of a high grade.

Hongkong's winter months constitute the main vegetable growing season. Quantities of vegetables handled by the

Vegetable Marketing Organization amounted to 143,057 *piculs*, an increase of 36 per cent over the preceding month, although less than the total quantity handled during November, 1957, owing to the long spell of very dry weather.

The public benefited by the increased production, since the average wholesale price of fresh vegetables fell from H.K.\$27.44 per *picul* in October to H.K.\$18.67 per *picul*.

### HONGKONG RICE IMPORTS

(thousand metric tons of edible rice)

From	November 1958	First 11 months 1958
Thailand	8.35 (56.3%)	133.9 (51.4%)
China	4.72 (31.9%)	63.6 (24.4%)
Cambodia	1.15 (7.7%)	50.6 (19.4%)
Burma	0.58 (3.9%)	1.2 (0.4%)
North Vietnam	0.02 (0.2%)	8.7 (3.4%)
South Vietnam	—	2.5 (1.0%)
Australia	—	0.05 —
Pakistan	—	0.05 —
<b>Total</b>	<b>14.82 (100%)</b>	<b>260.5 (100%)</b>

Source: Department of Commerce & Industry.

Hongkong f.o.b. prices for old crop A.1. broken rice of all grades dropped by 10s. per metric ton during November. Pending the arrival of new crop rice on the Hongkong market, local prices rose during the month, but improved supplies now coming forward are expected to reverse this trend.

Offtakes for November totalled 28,782 metric tons, or a weekly average of 5,756 m.t. against 5,440 m.t. in October.

### Evening Diligence

**O**F the many services rendered to the community by the Hongkong General Chamber of Commerce, the evening school is particularly valuable: students sit not only for Pitman's examinations but for those set by the London Chamber of Commerce whose standards are among the highest in the world.

At the recent certificate presentation ceremony, Mr. B. T. Flanagan, Chairman of the Management Committee, congratulated the fifteen students of the school who had gained their higher accounting certificates—four achieving distinctions.

He commented on the diligence of those attending evening schools, snatching a hasty meal after a busy day in the office, and remarked that "this sustained effort at all levels of life in Hongkong to improve knowledge and proficiency is one of the greatest characteristics of Hongkong people."

\*A *picul* equals 133.33 lbs.



## COMPANIES & SHARES

### Hongkong Shares Offer Attractive Yields

By Richard Ying

**T**HE overall trend of the local share market is now very bullish following the recent reduction of interest rate by the Hongkong & Shanghai Banking Corp. from 6% to 5.5% on overdrafts against shares as a security.

The volume of business at present, however, is still restricted by the lack of sufficient funds in the market because Hongkong Telephone Company and Hongkong Electric Company are calling up a total sum of \$25 million. At the beginning of next year Hongkong Land will call up about \$5 million.

The news of Mao Tse-tung's resignation as Chairman of Chinese People's Republic also brought about a temporary recession in the local market last week. Consequently, prices of most shares are now very attractive particularly of those shares which are due for dividend payments during the next few months.

This is therefore a good time to invest money in local shares.

#### Long Term Investment

Shares listed in Table A are those most frequently traded in the local

market. The choice of which to buy would differ with different persons for various reasons. Here are, however, a few shares which offer an annual return of 6 to 18% on the investment.

**Hongkong Banks**—An annual dividend of \$48 on \$805 represents a yield of 5.96%. This share is considered the most popular blue chip and there are usually more buyers than sellers in the market.

The merger between Hongkong Bank and Mercantile Bank would probably make the combined bank the biggest exchange bank in the Far East. The earnings of both banks might be still better next year. The recent increase in Hongkong Bank's final dividend by 5/- (1957 £1/12/6; 1958 £1/17/6) has further sustained investors' confidence in this share.

**Hongkong Docks**—Docks appear to be yielding only 4½% per annum when calculated against a dividend of \$2 per share. But if we include the bonus of \$6 per share which the company paid last year, this share yields 18.18%. Distribution in 1956 was dividend \$2 plus bonus \$6.50 per share.

However, the company may not be able to maintain the bonus at \$6. Nevertheless, investors reckon that there is no apparent reason why the company should not be able to pay a bonus of \$4 per share on this year's operations because the shipbuilding business is still very good.

**Hongkong Lands**—Although the company must spend more money on its new Union House project, its financial situation at present is much better than two years ago; the collection of rental at present is much higher. The new issue at par (not at a premium!) and the bonus issue are indications that the company's finances are very sound.

The directors have also given an assurance that in the absence of adverse circumstances, the present rate of dividend would be maintained on the increased issued share capital. The current price at about \$31 is equivalent to an ex-all price of \$29.50 which brings the yield up to about 8%.

**Hongkong Hotels**—Quotations for hotels at present are high on account of the strong demand. Many investors are hoping for a better dividend this year on account of the anticipated increase in Hongkong's tourist trade.

**China Lights**—According to the chairman's report for the year ended September 30, 1958, a sum of \$2 million has been carried over to next year's accounts after the distribution of an interim dividend of 50 cents plus a final dividend of 60 cents per old share and 40 cents plus 48 cents per new share.



The amount brought forward from the preceding year was \$1.9 million. The company's profit last year amounted to \$12.29 million compared with \$10.22 million for the preceding year. Total amount paid out as dividend for the year ended September 1958 was \$12.13 million against \$10.12 million in 1957.

The chairman's report also disclosed that capital expenditure in 1959 will not

be as big as in 1958 while earnings are expected to further rise on account of the increased domestic as well as industrial consumption of electricity in Kowloon and the New Territories.

Current ex-dividend price of \$16.50 is quite high but investors are anticipating a better interim dividend for the current fiscal year.

**Other Utilities**—Electrics, Telephones, Trams, Star Ferries and Yaumatis are all popular shares which have always been yielding about 7 to 8% per annum.

Telephones are now high but in view of the further expansion of the company's business, investment in this share will always bring a yield of more than 7%.

Table A

Share	Financial Year Ending	Last Dividend	When Paid & Payable	Share Value	Current Quotation	Highest/Lowest (1958 up to Dec. 15)	Yield (Estimated earnings for the next 12 months)
HK Bank	Dec. 31	I (1958) £1/ 2/6 F (1958) £1/17/6	Aug. 1958 Mar. 1959	\$125	\$805/795	860/735	5.96%
Lombard Ins	Dec. 31	D (1957) \$2	June 1958	\$10	\$27/26	33.25/26	7.41%
Union Ins	Dec. 31	F (1957) 2/3 I (1958) 2/-	May 1958 Nov. 1958	£1	\$71.50/70	76.50/70	4.76%
Allied Inv	Mar. 31	D (1958) 25¢	July 1958	\$4	\$4.10/4.025	4.60/3.65	6.10%
Int Inv	Mar. 31	D (1958) 65¢	Sept. 1958	\$5	\$5.20/5.10	6/5.05	12.50%
HK & FE Inv	June 30	D (1958) 80¢	Aug. 1958	\$10	\$9.30/9.20	10.60/9.20	8.60%
Wheelock	Mar. 31	I (1958) 37½¢ F (1958) 37½¢	Feb. 1958	\$5	\$5.75/5.60	6.70/5.30	13.04%
HK Wharf	Dec. 31	D (1957) \$9	Apl. 1958	\$50	\$94/93	121/93	9.57%
HK Dock	Dec. 31	D (1957) \$2; B \$6	Apl. 1958	\$10	\$44/42.75	55.50/40	*13.64%
China Provident	Dec. 31	D (1957) \$1; B 10¢ New issue 1:4 at premium of \$5	Apl. 1958	\$5	\$12/11.50	12.80/10.90	9.17%
HK Hotels	Dec. 31	D (1957) \$1.50; B 50¢	Mar. 1958	\$7.50	\$21.60/21.30	22.70/14.80	9.26%
HK Land	Dec. 31	F (1957) \$1.20 I (1958) \$1.20	Mar. 1958 Sept. 1958	\$25	\$30.75/30.25	34.25/30	7.80%
HK Realty	Apl. 30	D (1958) 15¢ Bonus issue 1:10	Aug. 1958	\$1	\$1.40/1.35	1.70/1.35	10.71%
Star Ferry	Dec. 31	F (1957) \$5.50 I (1958) \$3.50	Mar. 1958 Aug. 1958	\$10	\$107/105	124/102	8.41%
Yaumati	Dec. 31	F (1957) \$5 I (1958) \$3	Apl. 1958 Oct. 1958	\$10	\$94/92	101/89	7.92%
Trams	Dec. 31	F (1957) \$1.30 I (1958) 60¢	Mar. 1958 Sept. 1958	\$5	\$26.40/25.90	27.20/22.70	6.99%
Light	Sept. 30	I (1958) 50¢ F (1958) 60¢	May 1958 Dec. 1958	\$5	\$16.50/16.40	18.40/16.20	6.67%
Electric	Dec. 31	F (1957) \$1.30 I (1958) 60¢ New issue 1:5 at par	Mar. 1958 Sept. 1958	\$10	\$25.10/24.80	28.80/25.80 ex-all 25.50/24.20	7.57%
Telephone	Dec. 31	D (1957) \$1.50; B 25¢ New issue 1:3 at premium of \$5	Mar. 1958	\$10	\$24.80/24.60	28/24.80 ex-rtts 24.80/23.30	7.06%
Cement	Dec. 31	D (1957) \$3	Mar. 1958	\$10	\$26.50/26	26.50/20.20	11.32%
Dairy Farm	Dec. 31	F (1957) \$1.25 I (1958) 52½¢	May 1958 Oct. 1958	\$7.50	\$16.50/16.20	17.90/15.40	10.76%
A. S. Watson	Oct. 31	D (1957) \$1 Bonus issue 1:6	Apl. 1958	\$10	\$13.30/13.10	13.30/10.50	7.52%
Amal Rubber	June 30	I (1958) 5¢ F (1958) 15¢	Mar. 1958 Oct. 1958	\$1	\$1.725/1.70	1.875/1.225	11.59%
Nanyang	Dec. 31	F (1957) 60¢ I (1958) 20¢	June 1958 Dec. 1958	\$10	\$6.90/6.80	9.15/6.70	11.59%

\*Estimate against a dividend of \$2 plus a bonus of \$4.

Trams are also attractive because the company re-invests its earnings in other Hongkong shares. Furthermore, every tramcar is over-loaded almost all the time. There are also rumours of a possible bonus issue next year.

Ferries are at a low level at present. Many investors hesitate to buy these two shares because the possibility of building a bridge across the harbour has not yet been ruled out.

### Short Term Speculation

Let us now turn to short-term investment. Table B shows earnings of a selective number of shares, between now and the time of the next dividend payment, presented in percentages on investment per annum. For example, Hongkong Banks at \$805 will bring a dividend of \$30 in three months. This is equivalent to \$120 per annum which is 14.90 per cent on \$805. These yields will be changed to those in Table A after dividend payments.

Table B

Share	Yield (Earnings between now and next dividend payment expressed in % per annum)	Next Dividend Payable
HK Bank ..	14.90	Mar. 1959
Wheelock ..	39.13	Feb. 1959
HK Wharf ..	28.72	Apr. 1959
HK Dock ..	*40.92	Apr. 1959
China Provident .....	27.50	Apr. 1959
HK Hotel ..	37.04	Mar. 1959
HK Land ..	15.60	Mar. 1959
Star Ferry ..	20.56	Mar. 1959
Yaumati ....	15.95	Apr. 1959
Trams .....	19.69	Mar. 1959
Electric .....	20.75	Mar. 1959
Telephone ...	28.22	Mar. 1959
Dairy Farm ..	18.18	May 1959
A. S. Watson	22.56	Apr. 1959
Amal Rubber	11.59	Mar. 1959

\*Estimated against a dividend of \$2 plus a bonus of \$4.

With the interest on overdrafts reduced to 5.5% per annum, these shares are indeed very attractive. Investors could liquidate those shares which they do not wish to keep after the dividend payments. Indications are that prices will be very bullish after many local firms have distributed year-end bonuses to their staff.

## THE EXCHANGE MARKET

### Overseas Chinese Remittances Late in Arriving

By Fuchun Chan

THE market was very quiet last week, with rates being quoted but little business done. Trading totals for U.S. Dollars were: T. T. U.S.\$1,540,000; Notes cash U.S.\$180,000; forward U.S.\$690,000; D. D. U.S.\$210,000.

		U. S. \$			
Dec.	T. T. High	T. T. Low	Notes High	Notes Low	
15	\$578	577 1/4	576	575 1/2	
16	578 1/4	577 1/2	575 1/2	575 1/2	
17	578 1/4	577 1/2	576 1/4	575 1/4	
18	578 1/4	578	576	575 3/4	
D. D. rates: High		577 1/2	Low	576 1/4	

In the Notes market, interest for the change over, for the four days under review, favoured sellers and aggregated H.K.\$1.00 per U.S.\$1,000.

In the D. D. sector, the market remained quiet though the season for inflow of overseas Chinese remittances should have begun.

#### Far Eastern Exchange

Highest and lowest rates per foreign currency unit in H.K.\$ were: Philippines 1.55—1.50, Japan 0.0148—0.014725, Malaya 1.8825—1.88, South Vietnam 0.0699—0.0694, Laos 0.0724, Cambodia 0.077, Thailand 0.2753, Indonesia 0.0571—0.057, India 1.09.

#### Chinese Exchange

People's Yuan notes were quoted at H.K.\$0.915—0.84 per Yuan. Taiwan Dollar notes were quoted at H.K.\$0.128—0.126 per Dollar, and remittances at 0.127—0.124. The Taiwan Dollar was quite steady after the recent fixing of the official rates, and it was only in these last few days that weakness appeared. It was reported that large issues are expected before the end of the year.

#### Bank Notes

Highest and lowest rates per foreign currency unit in H.K.\$ were: England 16.10—16.08, Scotland 14.80, Ireland 13.50, Australia 12.77, New Zealand 13.86, Egypt 11.80, East Africa 15.20, South Africa 15.73, West Africa 13.50, Jamaica 13.50, Gibraltar 13.50, Malta 12.50, Cyprus 12.50, Fiji 10.50, India 1.1825, Pakistan 0.91—0.89, Ceylon 0.91, Burma 0.51, Malaya 1.846—1.839, Canada 5.94—5.9125, Cuba 5.30, Argentina 0.065, Brazil 0.032, Peru 0.24, Mexico 0.40,

Philippines 1.545—1.525, Switzerland 1.335, West Germany 1.35, Italy 0.00895, Belgium 0.108, Sweden 1.02, Norway 0.72, Denmark 0.77, Netherlands 1.46, France 0.012325—0.0123, South Vietnam 0.0705—0.0695, Laos 0.069—0.067, Cambodia 0.0775—0.077, New Guinea 1.15, Indonesia 0.0555—0.0545, Thailand 0.2675—0.266, Macao 0.991, Japan 0.0149—0.01485.

#### Gold Highs & Lows

Dec.	High .945	Low .945	Macao .99
15	\$252 1/4	251 1/4	Low 262
16	252 1/2	251 1/4	
17	252	251 1/2	262 1/2 High
18	252	251 1/2	

The opening price for gold on the 15th and the closing on the 18th were both at 251 1/2.

Interest, for the period of four days, favoured sellers and aggregated 12 H.K. cents per 10 taels of .945 fine.

Cross rates worked were U.S.\$38.04 per fine ounce, and 16,000 fine ounces were contracted at 38.04 c.i.f. Macao. U.S. double eagle old and new coins were quoted at H.K.\$262 and 240 respectively per coin, English Sovereigns at H.K.\$59 per coin, and Mexican gold coins at H.K.\$269 per coin. Platinum plates (European) were quoted at H.K.\$365 per tael, and platinum pieces (Japanese) at H.K.\$350 per tael.